Retirement Basics 101 – Retirement Terminology

This is not a full terminology list. In fact, this is a really "skimpy" list; however, based on my experience, the majority of questions that I was asked were based on a lack of knowledge revolving around these terms.

Accrued Benefit
- This is a benefit that has been earned, but not "paid" as of yet.

Actuarial Analysis
- This is the examination of risk.
- The analysis uses statistical models to help manage financial uncertainties.
- Actuaries make educated predictions, in regards to future events.
- Actuaries are used to help predict benefits for a Defined Benefit Pension Plan, for example.

Age of Retirement
- This is the time that you can retire, which is technically whenever you want.
- However, in the United States, the Social Security age for full benefits is 65. You qualify for early retirement at age 62 (but at the cost of a permanent 20% reduction of benefits.

Annuity
- A fixed sum of money paid to someone each year, often for the rest of your life.
- Can be a form of investment or insurance which will pay a series of annual sums.

Beneficiary
- This is a person or entity (like a trust) who receives assets when someone dies.
- Those who have life insurance or retirement accounts, for example, can specify who gets their assets after they pass away.
- A **contingent** beneficiary is a secondary beneficiary. They receive the assets **only** if the first beneficiary dies, can't be located, or refuses the inheritance.

Blackout Period
- This occurs when major changes are made to an existing plan, or a new plan.
- Employees are not allowed to make alterations to their accounts, or even change investment options until the blackout period is over.

Compound Interest
- Interest that is calculated on the principal (initial amount put in) **plus** the accumulated interest gained.
- Will make an investment grow at a quicker rate than simple interest (based only on the principle amount).

Rollover

- This occurs when retirement funds are sent from one plan to another.
- This often occurs when moving retirement funds from a previous employer to a new one, or from an employer plan to an IRA.
- If a **direct** rollover is made (*direct* meaning that it doesn't "touch your hands"), from one plan to another then taxes are not due.

Trust

- This is a legal entity that allows you to put conditions on how your assets are distributed upon your death.
- With respect to retirement accounts, a trust can be named as a beneficiary of your retirement account if you pass away. This gives you a degree of control over how your retirement assets are distributed.

Vesting Schedule

- This is a schedule of when the employee "earns" the rights to the employer contributions. Often this schedule is based on years of service.
- This is what a vesting schedule might look like:
    - After 1 year of service = 20% of employer contribution earned.
    - 2 year of service = 40% of employer contribution earned.
    - 3 year of service = 60% of employer contribution earned.
    - And so forth.