MRTA RETIREMENT PLANNING HANDBOOK

MRTA – The Professional Association of Education Retirees!

Missouri Retired Teachers Association and Public School Personnel

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MRTA RETIREMENT PLANNING HANDBOOK

A Guide to Financial Planning for a Secure Retirement

by

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Acknowledgements

This book would never have become a reality were it not for the years of practical experience, hard work and perseverance of Morris Shikles. Throughout his career, Morris has been active in professional educational organizations and a staunch supporter of Missouri's public schools. As a participant since 1948 in the Missouri Public School Retirement System, Morris has been a strong supporter of keeping the Public School Retirement System and Public Educational Employee Retirement System strong, yet responsive, to the needs of members. Morris has generously given of his time and personal resources over the years to promote retirement planning. He is continuously on the move, promoting retirement planning. One important point Morris always makes in his presentations is that: "just because you are retired doesn't mean you can shut down your financial plan."

Mark Iglehart, Forrest T. Jones & Company

We are indebted to the University of Missouri Extension for providing objective, unbiased, research-based information and materials. Our relationship with University Extension began almost ten years ago when Dr. Joyce Cavanaugh and Dr. Cynthia Crawford met with our Retirement Planning Chairman to map out strategies to promote retirement planning. Dr. Cavanaugh later became employed in Texas, but Dr. Crawford continues to provide a wealth of information to us, conducting practical seminars on these financial topics in the region she serves. Current, valuable information is available from county Extension offices, banks, insurance companies, investment brokers and registered investment advisors. Members of these organizations have provided great assistance to us in compiling this guide. Also the Missouri Bar Association publishes information concerning powers of attorney, healthcare directives and probate and trust law for the benefit of the public. Finally, the AARP performs extensive surveys and research concerning financial matters of interest to senior citizens.

Morris Shikles, Chairman, MRTA Retirement Planning Committee

MRTA's Vision Statement

MRTA is a caring, active and knowledgeable community. Members give of their talents and time to support retired and active public school employees. Members strive to uphold and improve the integrity, value and mission of our public schools so that all school personnel may live healthy, vital lives and be secure economically, socially and professionally in retirement.

Forward

I appreciate all that Missouri public education has provided to me and my family. Working to serve the employees and retirees of Missouri public education has been my passion for the past 22 years. I attended grades K-12 in Maryville and completed my Bachelor of Science degree at Northwest Missouri State University in Maryville. After graduation, I enjoyed two years of teaching business and physical education classes and coaching three sports in the Polo School District.

My core beliefs and knowledge of Missouri public education come not only from my own school and work experience, but also from having parents who were educators, a wife who is an educator, two daughters who have benefited from their public school experience, and a great aunt, Annetta Sullivan, who taught 48 years in the Dalton and Keytesville Schools. I feel very strongly about the value of Missouri public education and the opportunities it provides to equal the playing field for all of Missouri's students.

In addition to helping those who are already retired and members of MRTA, another important objective of this book is to help support school employees and teachers so they are less likely to leave the field of public education because of frustration over financial matters. To elaborate on the rationale behind this goal, I would like to point out a disturbing trend in our current public educational climate: our nation's teacher drop-out rate is disproportionately high, compared to other major professions. A December 2001 *Report from the General Assembly: Recruitment and Retention of Teachers in Missouri Public Schools*, revealed that of the teachers with no prior public school experience who were hired in 1998, 25.3 percent had left the classroom by 2001

Financial considerations are not the only reason teachers are leaving the classroom in droves; working conditions are a big factor. In a recent survey taken in Texas and reported in the August 12, 2005 *Austin Chronicle*, found that an inability to establish discipline in the classroom was cited as a major reason why 45 percent of the teachers are considering quitting. In February 2004, the Charlotte, North Carolina Advocates for Education reported that the estimated cost to their local school district to replace one teacher was $11,500. Yet, each year between 15-20 percent are leaving their classrooms. We must do better! It is not enough to focus on finances without addressing the cumulative effects of teacher stress.

We hope the information in this book will make a difference in helping you with your quest for personal financial freedom and in keeping our public education system strong and viable for decades to come. As someone once said, "It is never too early or too late to plan for the future."

Mark Iglehart, Forrest T. Jones & Company

Preface

MRTA Executive Director Jim Kreider challenged the retirement planning committee to develop a retirement planning handbook. Many meetings have been held with the executive director, officers, Mark Iglehart and the retirement planning committee all present as this was a "work-in-progress" for more than three years.

Although there are a number of good books on the market about this topic, no one source seemed to meet all of the objectives and needs expressed for this book. It consolidates information from multiple sources, and most of it is appropriate for anyone, but it has been expressly written for Missouri public school employees and retirees.

While this book is not an all-inclusive source of information on financial and retirement planning, it should create an awareness of issues to be considered. Readers are urged to seek advice from qualified financial, legal and tax advisors. In an ideal world, MRTA would sponsor seminars on financial and retirement planning, and it may someday, but it currently does not have the resources to do so. Therefore, for the time being, it is hoped that this book will reach many of our members and future members.

Before one can be ready to begin planning a financial future, consideration must be given to the various stages and mileposts of life. For educators these are readily identifiable. After the childhood and adolescent years, there is college and first teaching positions. It is at this point, in our 20's, when we are concerned with financing and then paying off our college debt. At this life stage, few are able to afford quite yet to focus on retirement planning.

During the 30's and 40's, the family formation stage, young people really begin to hit their stride. It should be well understood that by this time, financial planning for the future, for the children's college education and for retirement are well underway. Besides meeting the obligations of house and auto payments, the family must be putting aside a nest egg, regardless of how large or small, each pay period. Since there are potential scholarships for the children's college but none for retirement, each individual must take responsibility for planning for his own retirement eventuality. Besides a weekly, monthly, and annual budget, investing for the future must be an integral part of the family's financial planning. It is at this point that young people need to arrange for and become friends with a good financial planner. These individuals are every bit as important as tax preparers, accountants and attorneys. When considering a financial advisor, agent or broker, it is important to:

- **know** that this person is knowledgeable, experienced and a reliable source for information and products,
- **feel** confident that he can educate clients adequately about the positive and negative aspects of the product(s) before an application is signed,
- **trust** that this individual has made a commitment and has the resources to maintain good customer service and advocacy after the initial contracts are signed and the initial purchase is made.

Just as a good educator can help a child reach his learning potential sooner, a good financial professional can help his client better understand and meet personal insurance, saving and investing needs with a variety of plans from reliable companies, saving time, money and frustration.

The 40's and 50's may be an individual's peak earning years since, by this time, he is well established in his profession and earning more than ever before. Sadly, this is also a time of great spending – often the children are in college and many times, parents move out of their starter home and into a more expensive home. Once the children are out of college, however, the demands on the income begin to decrease somewhat, permitting one to generate more and more savings. This is an especially good time to participate in a salary reduction plan such as a 401-K, 403-B, 408 or 457 plans. Raises and bonuses are ideal for saving or investing rather than spending at ever-increasing levels.

The 60's are the home stretch years, a time when one begins to plan quite seriously for retirement. Consideration must be given to being sure that retirement income will be able to keep up with the ever rising cost of living. Income must double by the twentieth year of retirement. Again, it is essential that one maintain a budget and project his income so as to plan for those declining years. Withdrawals without penalties may begin to be made from tax-qualified plans beginning at the age of 59 ½. Should one lose his job or retire early, withdrawals may begin at age 55, but they must continue as if they were annuities. One MUST take minimum distributions from tax qualified plans in the year following his seventieth birthday. Reduced Social Security benefits are available by the age of 62 if one qualifies for Social Security. Widows may begin Social Security benefits at age 60. Full Social Security benefits begin at age 65 for anyone born in 1938 and before. For those born later, the age for full Social Security benefits increases through age 67, depending upon the year of birth. Maximum benefits are reached at age 70. Medicare eligibility is achieved at age 65. This may present a health insurance gap problem for those who retire before reaching age 65. These individuals must be sure they have a previous employer's insurance coverage. The *Consolidated Omnibus Reconciliation Act of 1985* (or COBRA) allows retirees to continue their previous employer's coverage when one is laid off or retires. In most cases the coverage is extended for 18 months, extending to 29 months if the individual is disabled. Missouri law permits Public School Employees to continue the previous employer's insurance coverage if such is elected by the end of the last year of employment. If, after carefully calculating future income and expenses, one cannot see his way clear to continuing his present lifestyle, he should consider working longer or taking a part time job.

Morris Shikles, Chairman, MRTA Retirement Planning Committee

DISCLAIMER

Representatives of the Missouri Retired Teachers Association are not qualified to give financial, legal or tax advice. Consult your own financial, legal and tax advisor for specific information.

Introduction

2 RETIREMENT MYTHS: (1) IT WILL COST LESS TO LIVE DURING RETIREMENT, and (2) TAXES WILL BE LESS DURING RETIREMENT

Because careful planning is necessary both before and after retirement, and because conditions never remain static, being attentive to the following list of things you should know, have or do will allow you to be better prepared: know your net worth; make a yearly financial statement; know if you are gaining or losing in net worth; understand your debts and mortgages; have a budget and financial or investment plan; have adequate insurance – health, life, disability, property, liability and long-term care; if you are married, know what you would do if you were suddenly single; have an inventory of all non-titled assets; have all property appropriately titled; have all accounts appropriately titled; have the proper designation of beneficiary for all insurance and retirement accounts; have a power of attorney or durable power of attorney for business affairs; have a medical directive, living will and durable power of attorney for health care; have an estimated retirement date and a plan; know where you will live during retirement; know how you will spend your time during retirement; know if your income and accumulated assets will permit you to maintain your desired lifestyle during retirement; have a plan for investing and spending down your assets during retirement; have a fall-back plan in case you do not have enough assets and income to see you through retirement; have an up-to-date trust/estate plan; have a list designating who will inherit valued personal effects and understand how much estate and probate taxes will be. These are the sorts of issues that are discussed in this booklet.

Although most of the information contained in *The MRTA Retirement Planning Handbook* is appropriate for anyone, this book has been written primarily for Missouri public school employees and retirees. This book is not intended to be all inclusive as a financial planning program. *The MRTA Retirement Planning Handbook* can be used by MRTA members to help them with their own planning or to share with currently active employees to help them with their financial matters and retirement planning.

Initial chapters address issues affecting employer-based fringe benefits, as well as basic financial, health insurance and employer-provided benefit issues. These chapters were contributed largely by Mark Iglehart. Middle and later chapters emphasize a diverse number of personal financial topics and retirement planning considerations. These chapters were contributed largely by Morris Shikles. The overall goal is to provide helpful information to anyone concerned about understanding some of the basics of money, maximizing insurance choices, growing wealth and planning for and enjoying retirement. Thus, *The MRTA Retirement Planning Handbook* will have something for everyone, from just a bit to perhaps a great deal for readers of all ages.

MRTA's motto is: "Strength in numbers." Being informed and proactive in improving and protecting Missouri's public education system and our retirement system isn't just for those already retired! Membership in MRTA can be obtained for very reasonable rates. Everyone who supports Missouri public education is encouraged to contact MRTA at www.morta.org or call 1-877-366-MRTA, find out which membership type is appropriate and join.

Chapter 1

Will it be possible to start on track and learn the basics?

Reaching established financial goals requires one to learn the basics, the very fundamentals of financial management.

Financial Fundamental One: Income must always exceed expenses over time.

One of the most famous quotes in financial planning circles is, "it is not what you make but what you keep that counts." So, what you save depends upon what you earn **and** how much you spend. Not being able to delay the "urge to splurge" and procrastination about acting on what we know we should be doing are the biggest roadblocks to personal financial freedom. *Inflow must ALWAYS exceed outflow.*

Whatever ones age, each day presents new opportunities to make changes. Living by the financial fundamental that inflow must exceed outflow is critical to enjoying financial freedom. Young teachers struggle financially to pay off their student loans, and later they may have credit card bills, medical expenses, a home, a car, a family and countless other unforeseen expenses. Regardless of circumstances, one must know that he cannot get ahead financially if there is consistently more money going out than is coming in. Early in a teacher's career, it is essential that further education be attained. While this is expensive, it will assist in earning more all during ones career.

Everyone must know what he spends if he is to improve his financial fundamentals. Some good advice would be to keep a computer program, a calendar, a three ring binder, or an accounting ledger handy to keep track of spending. Do this until it becomes a habit. After several months of tracking expenses and savings, utilize the following:
~ Cash Flow Statement – inflow and outflow
~ A budget - fixed and variable expenses, short-term and long-term savings goals
~ Net Worth Statement – assets and liabilities

It would be nice to have enough income to meet the necessities of life with discretionary income remaining to save and invest. Short of that, however, one must have other options. First is to realize that everyone has "needs" and "wants." Only by controlling the "wants" will one ever be able to save. Today's advertising is a very powerful "want" encourager, but good savers learn to recognize when advertising is manipulative and that the "wants" advertising engenders can be controlled. Good savers understand economic opportunity costs, which permit instant gratification at the expense of future saving. They realize they must control the economic "trade off" because only a rational degree of delayed gratification can result in saving for a healthy retirement. They also realize having what they want now means they cannot have it later, or "You can't have your cake and eat it too." As any farmer can tell you, "If I eat my seed corn, I cannot raise a corn crop."

There are ways to save for retirement on a limited budget. One of the best ways is to track expenditures by keeping a written record of where the money goes. One may then determine if that is where it should be going. Some tips to employ might be:
~ eat out less often,
~ buy fewer prepared food items,
~ buy store brands rather than name brands,
~ take your lunch to work rather than going out for lunch,
~ buy things when they are on sale,
~ carpool when possible,
~ don’t buy duplicate insurance,
~ use the public library instead of buying books and magazines, and finally,
~ don’t buy it if you don’t really “need” it.

Anyone tracking spending will begin to see patterns identifying his strengths and weaknesses. As these begin to emerge, good savers and dedicated retirement planners will accentuate their strengths and work on their weaknesses. They will set short-term and long-term goals, and work toward them. Soon, it will become evident that small steps go a long way toward personal financial freedom for anyone who dedicates himself to the task.

Paying bills through a *Quicken* program or other computer program, enable one to see exactly where the money goes and create a categorical breakdown of all expenditures at year’s end. This allows for financial management, budgeting and controlling spending with much greater ease.

We all work hard for our money but we often fail to make our money work hard for us. To assist with controlling the “urge to splurge,” one might consider reading Robert T. Kiyosaki’s and Sharon Lechter’s *Rich Dad, Poor Dad* books, which outline how our parents’ and grandparents’ generations were able to live well and put away sizeable nest eggs for their retirement, with much remaining to pass on to their heirs. These books have materials that accompany them that will reinforce the lessons on finance, saving and investing. Two terrific board games, *Cash Flow for Kids* and *Cash Flow 101*, developed by the authors, are fun ways to teach children investing even as the adults are learning.

Financial Fundamental Two: Make time and compounding work for you.

The sooner investing and saving can begin, the more there will be to finance ones retirement. The time value of money, or compounding, should not be underestimated. It is a powerful force. Albert Einstein, the great math and physics genius of the 20th Century, called compound interest the eighth wonder of the world.
(See Appendix for example 1.)

Chapter 2

Are employees maximizing employer-provided benefits?

Employers go to great lengths and often great expense to offer fringe benefit packages that will attract and retain quality employees. It is not uncommon for an employer to spend **$10,000 or more per year**, **per employee** on fringe benefits. It is up to the employee to understand and utilize the plans that are paid for him as well as those offered to him for purchase for himself. Being knowledgeable about employee benefits is the first step on the path to financial freedom.

Financial Fundamental Three: Maximize individual employment benefits.

Begin consideration of dental and medical insurance with the truth in mind: "there is no free lunch." The cost of any group insurance plan consists of the amount required to pay the claims incurred by the employee group, an amount to pay for the administrative process and an amount for profit or reserve in order for the insurance company or self-insured group to continue operating. The cost of actual care has risen for years at inflation rates two to three times that of most goods and services; therefore, do not be surprised that the cost for an individual educator may be as much as $400 per month per individual or $1,000 or more per month for a family. (See Appendix for comment 1.)

Because of this higher rate of inflation, employers in all industries have had to reduce benefit levels provided to employees or increase deductibles or amounts payable up front known as co-pays. These changes not only reduce employer costs but are designed to give consumers a strong incentive to use health care benefits wisely, not as though they are free. The keys to making these benefits work well are consumer education about the product and attention to details about the plan's operating parts.

It is essential to pay special attention to the deductible or co-pay amounts mentioned, the percentage split between the consumers cost and the amount paid by the insurance carrier (co-insurance), the built-in incentives to encourage consumers to use certain providers (doctors, hospitals, clinics, therapists, etc.) and not others, and finally, the total risk consumers personally bear for expenses for themselves and their families (often called out-of-pocket maximums). The school district may also sponsor a cafeteria plan that permits their employees to save pre-tax an amount deducted from paychecks to pay toward personal costs. A cafeteria plan may be one, two or all three parts of an Internal Revenue Code Section 125 Cafeteria Plan. These include:
~ Insurance Premium Conversion
~ Medical Expense Flexible Spending Plan, and/or
~ Dependent Care Expense Account

Financial Fundamental Four: Take advantage of tax-free employment benefits.

~ **Tax-Free.** A tax-free dollar is whole dollar earned and kept. Employer paid health insurance, term life insurance – up to $50,000 dental insurance, sick days, long-term disability, plans and benefits purchased through a Section 125 Cafeteria Plan and a few other plans do not require employees to pay any taxes on the dollars spent on these benefits. Therefore, a $5,000-a-year payment by an employer for employee health insurance is worth a tax-free $5,000 to the employee. From another point of view, if an employee were required to pay $5,000 of his earnings, he would need to earn $6,500 or $7,000, or more (depending upon his tax bracket) to attain this same benefit. This is because the employee may pay federal, state, and possibly Social Security and Medicare taxes on earned income. It is very important that an employee take into consideration the value of the employer's tax-free benefits when he evaluates each job opportunity available to him, because *employees are not taxed on "qualified" employer provided benefits.* (See appendix for example 2.)

Financial Fundamental Five: Take advantage of tax-deferred savings and investments.

~ **Tax Deferred**. A tax-deferred dollar is a whole dollar, until one actually receives it. Also, a tax-deferred dollar can generate additional tax-deferred earnings, which are not taxed until one actually receives the money. Most tax-qualified retirement savings plans provide ones money a tax-shelter until he starts to receive it. He is not taxed each year on those earnings or investment gains. Hence,, the more one keeps, the more he can earn. (See appendix for example 3.)

The tax-free advantage outlined above applies to amounts that employees contribute to an employer's Section 125 Cafeteria Plan. With the Premium Conversion Plan, employees pay their portion of the premium on certain qualified plans, including employer health insurance, dental, vision, supplemental health, and cancer premiums with pre-tax dollars. It is really quite simple. The employee directs a portion of his salary be deducted from monthly pay, which the employer uses to provide for these benefits. Since the employer pays, neither the premiums nor the benefits are taxable to the employee.

There are restrictions on when changes to the election can be made during the plan year and on what plans are eligible for the tax-free Premium Conversion Plan. An employee can change deduction amounts and covered plans during the plan year only if there has been a qualifying change in employment or family status (marriage, birth of a child, etc.). Employers and plan administrators can provide this information.

With the Medical Expense Flexible Spending Plan, an employee can also set aside pre-tax dollars from salary, again a salary redirection out of periodic paychecks, to cover certain tax qualified un-reimbursed medical expenses for employees and their families. During the plan year, employees incur eligible,un-reimbursed healthcare expenses and turn in a simple claim form with receipts to the plan administrator. Once or a twice a month, employees are reimbursed by the plan administrator for these expenses, up to the annual plan contribution.

Some even permit the use of debit cards to pay the providers. Employees must plan wisely because amounts left unspent in their accounts at the end of the allotted time period are forfeited to the employer. So, be realistic and conservatively estimate xpenses, but remember not to leave hard-earned money on the table to be taxed.

The amounts paid by school districts and what the educator contributes from his earnings into the Public School Retirement System (PSRS) or Public Education Employee Retirement System (PEERS) defined benefit plan are tax-deferred. Public education employees do not pay federal and state taxes on these contributions and earnings until they receive the money in the form of monthly retirement benefits or lump-sum withdrawals. Withdrawals from the retirement system are not allowed until an employee terminates employment from Missouri public schools.

Chapter 3

How do Social Security, Medicare and Medicaid work?

Some federal, state and local government employees, as well as railroad employees are not covered by Social Security. Missouri teachers voted in 1956 to improve their retirement system, PSRS, rather than be covered by Social Security. Non-certificated school employees are covered by both Social Security and by the Public Education Employees System (PEERS).

Teachers can become eligible for Social Security benefits if they work in private employment and earn forty quarters of Social Security credits. People who earn a pension from work not covered by Social Security are subject to the *Windfall Elimination Provision* or WEP. Their Social Security benefits will be reduced by approximately two thirds.

Widows and widowers, who receive PSRS benefits but whose spouse qualified for Social Security, will have their Social Security benefits reduced by approximately two thirds because of the *Government Pension Offset* or GPO. Anyone receiving PSRS retirement benefits is considered to be financially independent and not dependent upon a spouse.

Anyone born in or prior to 1937 who accumulates forty quarters of covered employment is eligible for Social Security retirement at age 65. Eligibility is pro-rated for those born after 1937 until it becomes age 67 for anyone born in 1960 and later. Anyone otherwise qualified can retire with reduced benefits at age 62. They must wait until they are 65 to be eligible for Medicare. This presents a health insurance problem for those retiring at 62 if they are no longer covered by an employer's health insurance plan.

In addition to retirement benefits, people covered by Social Security are entitled to disability, survivor and dependent benefits. Those covered by PSRS have benefits that are similar to those of Social Security. They are discussed in the next section.

Anyone hired by PSRS-covered employers before April of 1986, who have not changed employers since that time, will not have to pay into Medicare on PSRS covered wages; however, unless they qualify for Social Security otherwise, they will not be eligible for Medicare. Those who were hired by a PSRS-covered employer or those who have changed employers since March of 1986 do have Medicare contributions withheld from their paychecks. Their contributions to Medicare are matched by their employer. Individuals who acquire forty quarters will be eligible for Medicare benefits at age 65.

There are now three parts to Medicare: Part A is hospital insurance, Part B is medical insurance and Part D is prescription coverage. Medicare Part A pays for hospital expenses, hospice care and skilled home health services for homebound patients. It also helps with short term care in skilled nursing facilities if the patient is there for rehabilitation. Part A is paid as a Medicare benefit at no additional cost. Part B is voluntary and is deducted from Social Security payments. Part B pays for doctor's expenses, out-patient hospital care and some medical equipment and supplies. Part D is prescription coverage that must be purchased when an individual is eligible for Medicare benefits or an annual percentage is attached to premiums if and when the coverage is purchased in the future. Many and varied plans are available – so much so that many retirees had very difficult decisions and were quite late in making their initial choices. These plans are similar to others in that they cannot be changed until a specific window for doing so opens temporarily each year. During that window of change time, the benefit recipient must contact his/her prescription carrier and arrange for any changes they feel are needed. Coverage is subject to change even within the specified coverage period.

Medicaid is a federal/state program for medically necessary and nursing home care for the indigent. To be eligible for Medicaid, one must meet certain, usually poverty level, asset and income guidelines.

Since educators do not qualify for Social Security, what benefits will they receive?

Currently certificated school employees do not qualify for Social Security benefits; however, a percentage of total compensation is deducted from payroll and deposited as contributions to the Public School Retirement System (PSRS). The employee's percentage is equally matched by the school district and transfers are made into the employee's retirement account each pay period. Since the mandatory contribution is a higher percentage than the tax rate for Social Security, the long term benefits are also higher. Like the federal program, PSRS provides a retirement, and a disability benefit, which is known as a defined benefit pension. These are highly prized pension systems because benefits are guaranteed for life. With alternate systems: defined contribution and lump sum, the benefits may well run out before the life of the recipient ends, stranding them with no benefits in their most senior years. The PSRS system is a well-funded, stable pension system and is the envy of many other pension systems around the nation. The amount of the benefit PSRS pays a retiree is determined by a formula based upon years of credited service multiplied by the average of the employee's BEST three years of compensation and then multiplied by a factor ranging from 2.5 through 3.5%. Any employee with thirty years of credited service, anyone who reaches age 60 or anyone whose age plus years of creditable service equal 80 may retire at full benefit; however, since one of the formula's factors for computing the benefit is years of creditable service, many people will want to see those years add up because the benefit will be more substantial. After thirty years in Missouri schools, many educators find that their retirement benefit may match their take-home pay at the end of their education career. Anyone wishing to learn more about the Public School Retirement System should visit their website: www.psrs-ntrs.org/PSRS/PSRS-index.htm.

The Public Education Employees Retirement System (PEERS) covers non-certificated employees. The benefits operate in a similar manner, but they are linked with Social Security. Both the employee and the employer contribute equal percentages into the system to fund its benefits. In addition to PEERS benefits, each employee pays and the employer matches a percentage tax into the federal Medicare system. By the time each employee reaches age 65, he will qualify for full Medicare, benefits from PEERS and from Social Security. Some allowances are made for early retirees to take more out of PEERS early and see that amount fall commensurately once Social Security benefits begin. Again, employees are encouraged to visit the PSRS/PEERS website.

What is vesting and why is it so important? PSRS/PEERS requires five complete years of credited service before an employee is fully vested. This is known as cliff vesting because the benefit available to one who does not have five years of credit is simply a refund of contributions, if the employee does not return to public school employment within five years of leaving. Of course, the employee may choose to withdraw his own contributions any time after leaving public school employment, but he gets only the portion he contributed. He forfeits the portion placed in his account by the school district. These forfeitures are used to fund death, disability and retirement benefits for those who are vested.

Vesting becomes incredibly important with respect to an employee's premature total disability benefit. If not fully vested, a disabled employee has no income insurance protection provided by the system. Therefore because disability is the greater risk of financial ruin for younger employees up through middle age, employees should be encouraged to purchase a quality individual disability income policy unless the employer provides group disability insurance protection as either an additional paid benefit or one available through a Cafeteria Plan as discussed earlier. The suggested amount of gross income protected by such a plan is at least 70%.

After school employees become fully vested, the PSRS/PEERS system provides benefits similar to but better than those of the federal Social Security system. In addition to the disability income protection mentioned above, each vested employee has benefits for dependents in the event of pre-retirement death and, of course, an excellent retirement benefit with many alternative choices.

What if one dies before he can retire? Every employee who has dependents must take care to adequately provide for those individuals in the event of the employee's death. PSRS/PEERS provides death benefits for active public school personnel who die before they retire.

The benefit is funded from both employee and employer contributions. It is in addition to whatever group term life insurance the local district provides or employees purchase. Beneficiaries may choose one of three types of benefit, depending upon their status and relationship to the employee: Lump Sum, Monthly Dependent-Based Survivor Benefit and Monthly Retirement-Based Survivor Benefit**.** The lump sum alternative may be the smallest amount in net present value, but it is available for any beneficiary regardless of relationship with the employee. Only qualified dependents may choose among the others. With Social Security benefits, the return of contributions is to dependent beneficiaries at the time of the employee's death.

Chapter 4

What are some risk management tools?

Risk management is an important fact of life. While an infinite number of risks exist, only a few are critical enough to require insurance to help deal with the consequences of the occurrence. We protect ourselves and our families against risk with insurance. By protecting against those events that cannot be faced alone financially, he will prevent being either over-insured or under-insured. Everyone probably has auto, health, life, property and casualty insurance, realizing that the loss of income because of accident, disability or death is a matter for serious consideration.

What about life insurance? Insurance that covers the risk of death for a finite period at a time is term life insurance, which is insurance that is annually renewable and available for periods of 5 through 30 years. Keep in mind that premiums for life insurance often increase as one ages. A contract guaranteed to last for your physical life is permanent life insurance. Before purchasing life insurance, one needs to assess his current situation. Are there debts, a spouse, children? What of the future for them? What goals and plans will need to be fulfilled for the family? Rules of thumb for purchasing insurance range from an extravagant ten to twelve times annual income for young to midlife couples with children to a modest three to four times annual income for aging adults. Insurance agents and financial planners are available to use technology and calculators to help families determine appropriate life insurance protection. Using a reasoned approach will help families avoid spending too much of their savings plan on risk protection rather than growing their net worth through investments.

What are some ways to protect against identity theft, which is a significant and growing problem today? Almost daily there are news alerts regarding security compromise at a major company or government agency. Everyone seems to be at risk. Undocumented workers, organized crime rings, easy credit, camera phones and the use of the Internet for financial transactions and communication all serve as ways that ones identity can be compromised. Although one may do a great job of guarding his essential documents, there are many organizations that have access to people's personal information and they may be at risk.

Identity theft can, and often does, involve much more than just financial, banking or credit card information. Without ones knowledge, thieves may change a victim's address, obtain a new driver's license or even a new Social Security number, have a medical test performed, commit a crime in the victim's name and/or apply for a job. In order to reduce the risk of becoming an identity theft victim, utilize these common sense tips:

- Mail – Do not let mail accumulate in an unsecured box to be picked up later. Stop mail when away from home for weeks or even a few days. Mail payments from a U. S. Postal Service mailbox, not from a home mailbox where they may be subject to random theft. Shred old mail and other personal information

~ Social Security Number – Do NOT put Social Security numbers on checks or driver's license. In fact, avoid providing Social Security numbers and birth dates unless absolutely necessary – and NEVER to someone who calls you.
~ Credit Report –Review credit reports regularly. There are three major credit bureaus: Experion, Equifax and TransUnion. Recent federal law requires each agency to supply a free credit report each year. For more information, go to www.annualcreditreport.com.
~ Personal Information – Do NOT reveal personal information to anyone UNTIL and UNLESS knowledge is provided as to why, how and by whom the information will be used.
~ PINs and Passwords – Secure all Personal Identification Numbers and NEVER reveal Internet passwords. Be sure to ALWAYS use a nickname in all Internet chat rooms and on any comments posted online.
~ Financial Records – Maintain all financial records properly and in a safe place. Know the time of month banks, credit card companies, etc. mail out statements so that if one doesn't arrive on time, contact with the sending institution can be initiated to check on the statement. Review all statements closely.
~ Wallets/Purses – Make copies of all documents contained in a wallet and/or a purse so that if it is stolen, proper notification of all companies affected can be undertaken immediately.

This is by no means an exhaustive list of do's and don't, but it is a good start. A variety of private identity/credit monitoring protection products exist. Be sure the plan chosen covers all adults in the family for one monthly fee and includes an identity restoration benefit. Quality restoration benefits help reduce out of pocket expenses and time spent away from work. Further information on this topic is available from the MRTA Informative and Protective Services Committee.

What about disability protection? Since everything in a family depends upon the monthly income, its continuation is crucial. In the event of an accident or illness that prevents an employee from fulfilling his duties, most education employers offer a sick pay plan to help. Some offer Short Term Disability plans that pay a percentage of salary for a few months after the sick days have run out. Also available are Long Term Disability plans that pay a percentage of salary after a 3-6 month waiting period. The benefit is commonly 60% or 66% of salary, not including extra duty contracts. Because these policies vary, examine the small print and be sure of what is covered. Try to get coverage referred to as non-cancelable, guaranteed renewable with the definition of disability referenced to percentage income loss, a guaranteed insurability rider, a cost of living adjustment rider and a benefit period to at least age 65. Life and expenses do not stop just because one can no longer work

What kind of, how much and when should I buy long term care (LTC) insurance? Because Americans are living longer and are often healthier, we may not think of ourselves ever needing to be cared for on a long term basis. However, if a severe disability leaves one unable to care for himself, much less earn an income, someone must pay for that additional, necessary care. LTC insurance offers a range of services for individuals who require assistance with daily living activities such as bathing, dressing, eating, maintaining continence, toileting, transferring from a bed to a chair and back and supervision of someone suffering severe dementia or Alzheimer's disease.

Although costs vary depending upon types of services required and geographic location, the national average private pay cost for one year in a nursing home semi-private room is $57,670. A home health aide may cost over $18 per hour. Greater demand for care of baby boomers will lead to higher costs. Not only is it expensive, but serious accidents or debilitating illnesses may occur at any age, cause financial havoc and negate the chance of buying coverage for older age. Increasing probability of high total expense like long term care requires financial protection through insurance.

Medicare and Medicaid will not adequately cover the cost of long term care. Medicare will pay for up to 20 days of skilled care in transition between hospital and home under limited circumstances. Medicaid pays for care in some facilities after all resources have been exhausted. Regular health insurance generally excludes payment for custodial care, which comprises most long term care. Disability income insurance to pay living expenses is almost never sufficient to pay for long term care and the benefit period usually ends at age 65, after which 90% of this care is needed.

Timing your purchase of LTC insurance depends upon many factors. Premiums remain more affordable during one's 50's and early 60's, so the younger the better. One must still be in relatively good condition, both financially and physically to qualify. Each person, by age 65, has a 40% probability of requiring long term care, with women's risks being higher than men's. Actually ten percent of LTC recipients are under age 65.

The best LTC insurance coverage pays for care in a facility, if required, or for in-home Services, as long as one needs help with two or more of the activities listed here. Because of future inflation, it is always wise to buy as much daily benefit as one can afford, even $165 or more. A comprehensive financial planning approach will also consider the use of income from other resources. As with disability income insurance, buy a policy that guarantees renewability as long as you pay the premium. In order to increase premiums, the company must petition the state insurance commissioner and show its need to raise rates on all who are insured and similarly situated.

In addition to many choices within a comprehensive LTC contract, life insurance or annuity policies can sometimes be used to fund the LTC costs. With this much complexity, a professional LTC insurance specialist can explain the alternatives and show price differences among several top-rated companies.

Understanding risk management can be complex. Consult the glossary for more help.

Chapter 5

What are some legal basics every household should understand?

Titling of property and accounts is extremely important and has far-reaching consequences. One of the biggest mistakes is not keeping designated beneficiaries up-to-date. Death or change of marital status requires immediate attention in changing beneficiaries. Insurance and retirement accounts that require a listed beneficiary are transferred by beneficiary and not by will. Designation of beneficiary takes precedents over a will.

There are several forms of ownership, each having its own unique advantages and disadvantages:
~ Sole Ownership – there is a single owner.
~ Joint Tenancy – property owned by two or more individuals.
~ Joint Tenancy with Right of Survivorship – if one of the owners dies, the other(s) assume(s) total ownership.
~ Tenants in Common – two or more individuals own property together but without the right of survivorship. In case of the death of one co-owner, his or her interest passes to whoever is named in that individual's will. If there is no will, state law dictates which heir(s) get(s) the property.
~ Community Property – a special form of joint tenancy that exists between spouses or partners with each owning half of all that has been acquired together. Either spouse/partner is entitled to will his/her share of the property to whomever (s)he wishes..
~ Tenants by Entirety – about half of all states, including Missouri, recognize the special ownership right available to married people. Each spouse owns half of the property. Neither spouse can sell the property or transfer his/her ownership without the consent of the other. If/When one spouse dies, the other is entitled to the whole property.

Cautions: Be especially careful about adding someone to a title as it can create serious legal and/or tax consequences. Property held jointly is subject to claims by creditors of the owners. Suppose a couple adds a child's name to their home, making the child part owner. If the child is involved in an accident or a divorce, this could become a problem. Sometimes elderly parents try to make sure their home goes directly to their children when they die rather than passing through probate. This could be better accomplished with a will or a trust than with titling. Parents also sometimes deed their property to their children to qualify for Medicaid in order to enter a nursing home. Be aware that there is a "look back" period and the state can recoup the cost of the nursing home care. When deeding property over to an heir, an unintentional taxable event can be created for the heir. A transfer of real property on death receives a "stepped up" value to current market value. If it does not get this "stepped up basis," the value goes back to the original owner's cost basis. This could create a large capital gain for the heir when the property is sold.

Often, elderly individuals fail to realize when they are becoming incompetent. When this happens, someone else must "do for" the elderly loved one. This task often falls to middle-aged children. Seniors should understand, and remember from going through this period with their own parents, what a difficult time this is for families. To minimize or avoid as much the pains and complications as possible, plans for this very reality, this eventuality should be undertaken while an individual is still of sound mind and body. Without the necessary paperwork in place, family members will have great difficulty caring for and paying the bills of someone who has become incapacitated.

~ Power of Attorney – a document that authorizes another person to act for any other individual. This person is called an "agent" or an "attorney-in-fact." This can be a broad or limited power for business purposes. A simple power of attorney expires when one becomes incompetent. In most states, two doctors must establish incompetency. In such a case, when no guardian is named, a court will designate a guardian for the individual who is no longer competent.

~ Durable Power of Attorney – a document that stays in effect if an individual becomes incompetent or incapacitated. It can be either immediate or springing, meaning that it needs to be triggered to be activated, such as a medical declaration that one is unable to handle his/her own affairs. This document will not suffice as a "durable power of attorney for health care." (May be called Attorney in Fact.)

~ Durable Power of Attorney for Health Care – a document that allows one to appoint an agent to make health care decisions for him/her. This may include the authority to remove life support. The document shifts the decision-making from doctors to an authorized agent as soon as doctors determine that an individual cannot decide for him/herself. A health care directive sets forth the ailing individual's wishes about health care issues, and while many of these directives are made years in advance of their need, agents make care decisions based on up-to-date technology. (May also be called Health Care Surrogate or Advance Directive.)

~ Health Care Directive – this document, created while an individual is of sound mind, is sometimes called an advance directive or a living will. It permits an individual to state his/her wishes about treatment or withholding or withdrawing life-prolonging procedures and is helpful to family members and doctors who have to make life saving decision. Only a Durable Power of Attorney allows an "agent" to make current decisions after consulting the Advance Directive.

~ Anatomical Gifts – this document authorizes donation of ones organs. Signing the back side of the Missouri drivers license permits one to donate his/her organs. Such choices should be discussed with family members.

All of these documents should be on file in medical records and family members should be made aware of them. All medical documents and information, if kept in a plastic bag attached to the refrigerator door, will be easily accessible to paramedics.

Chapter 6

What investment vehicles other than PSRS/PEERS might be used?
(or Investing A to Z!)

There is a virtual multitude of *investment vehicles* ranging from safe to *risky*. Surveys indicate that the amount of risk individuals are willing to take depends largely upon age. As most teachers are aware, many young people seem to believe that they are invincible or immortal and often seem to be willing to put themselves at great risk for very little gain. The older one becomes, the more averse to risk (s)he becomes. In investing, younger generations are generally more willing to take greater risks for greater gains. Forty-five percent of Generation Y, those born in 1977 and later and forty-eight percent of Generation X, those born between 1965 and 1976, are willing to take substantial risk with their investments. This compares with thirty-five percent of baby boomers, those born between 1946 and 1964, and the silent generation, those born before 1945, who prefer average risk for average gain.

When it comes to financial goals, all age groups cite retirement as a primary goal. Younger generations are more likely to be saving for a house, a car or another large consumer item; further education, or simply paying off education loans. Older investors are more likely to be seeking current income and reducing their taxable income.

Experts all agree that a *well-diversified portfolio* of investments is an ideal strategy for investing for a lifetime. More risky vehicles should be used by younger investors while safer ones are moved into gradually by aging investors. Will Rogers is quoted as having said, "I am more concerned with the return **of** my money than I am with the return **on** my money." He also said, "The quickest way to double your money is to fold it."

Most investment vehicles fall into one of two classes, both of which should be in a well-diversified portfolio, *fixed income* and *equities*. *Fixed income* investments are generally *bonds, certificates of deposit, mortgages, money market accounts, savings accounts* or *asset-backed securities*, and other *debt-type securities*. One is in essence loaning his money to another entity in return for a fixed, or in some cases, a variable rate of return. One may reasonably expect to get back the *principal amount invested* and perhaps some percentage of interest on these investments; however, if interest rates are low, on may not keep up with inflation with these, some of which are indeed long term arrangements. *Equities* investments are generally *stocks* and *mutual funds* that give one part ownership in an entity. Equities may increase or decrease in value and may provide dividends as well as capital gains..

Ideally, an investor begins an investment strategy with a savings or *money market* account which might permit a three to six-month emergency fund accumulation in a *liquid*, or easily accessed, account. The next step in investing may be to acquire a *certificate of deposit* (CD) or bonds, which come in three classes – *corporate, government* and *municipal*. Next might be to move into *equities* through a *mutual fund*. This can be done with minimum investment, and it begins to provide *diversification* and *allocation* over a broad spectrum of investments. *Mutual funds* come in many varieties with different investment objectives to spread the risk so that losing a large percentage of assets is less likely. Investing in mutual funds can be done with as little as $25 per month, which can be invested in a wide spectrum of diversified funds such as *growth stock to, income-producing bond; domestic to global to international stocks; small company, or small-cap) stock, medium and large (or mid-cap and large-cap) company stocks; front load, back load and no load* funds – truly, almost everything one might imagine. Often there are "fund families" in the same mutual fund that can be exchanged for another fund in the family without a sales charge. *Life cycle funds* change objectives and investments as an investor approaches retirement. Each has its own advantages and disadvantages, so one is always encouraged to read the company's prospectus and inquire as to the specific fees and regulations that apply. This is where the advice of a financial advisor can be a real time saver and provide an aid to understanding the product.

As one becomes a more experienced, sophisticated investor, he may want to invest in *stocks*. Stocks can show the greatest return, but they can also show the greatest loss. Many people also invest in *real estate, personal property, commodities, collectibles, antiques* and precious metals. Others prefer *bonds* and *real estate investment trusts*.

As one approaches retirement, (s)he may want to invest *in annuities, U. S. Government Securities* and *Treasury Inflation Protected Securities (TIPS*). One should not abandon *equities* entirely since fixed income investments may not keep up with *inflation, but* most investments should be in vehicles that provide monthly or annual dividends to supply that necessary additional 30% our retirement plan will require.

Some investment principles to study and employ include:

diversification, allocation, rebalancing and reallocating, dollar-cost averaging, laddering, liquidity and marketability, leverage, compounding, tax efficiency and tax deferral.

In order to appropriately manage risks, one must be aware of what comprises risk. For assistance with this, study and employ the following terms:

investment risk, market risk, credit risk, interest rate risk, call risk, tax rate risk, inflation risk and *foreign investment risk*

Before becoming involved in investing for retirement, one should understand the following terms: *annuities common and preferred stock; equity investment;, fixed income; dividend; bondholder;, common or preferred stockholder; debtor and creditor; bond; debt security;, maturity date; par or face value; above, below or at par; interest rate; maturity; secondary market; credit worthiness; investment grade and "junk or high yield bonds; municipal bond; "tax equivalent yield;" general obligation or revenue bond, stocks; bonds; securities; prospectus; open- end and closed-end funds; actively- and passively-managed funds; index funds, fund of funds or wrap accounts, managed accounts; front-load, back-load and no-load funds; benchmarks; balanced, growth, value and income fund;, exchange traded; sector, life cycle and target-date funds; management fees, Treasuries, I-bonds and CPI.*

(Note: Definitions of many terms may be found in the glossary of this book.)

Chapter 7

How is retirement being redefined and when should it begin?

Careful planning is necessary before and after retirement because conditions never remain static, whether it is thinking about how inflation will result in higher prices for goods or the fact that we are living longer lives. It is a mistake not to plan carefully how we want to live during retirement.

Too many people fall prey to the myth that it will cost them less to live during their retirement. Today's reality is that many of the items essential to a quality life are costing more. Insurance costs are an ideal example. Premiums paid for quality insurance coverage even a few years ago have escalated anywhere from 50 to 100 % of their earlier cost. Such realities do not make for secure retirements or even lend themselves to confident retirement planning. Instead, what many retirees have found is that they must work so that their insurance premiums will be paid by an employer.

One of the ways that educators invest in their future is by continuing their education. Such an investment is never wasted. Not only will it allow the educator to earn more money during his professional career, but it will add to the quality of his/her life, as knowledge for its own sake always does. Lifelong learning is a goal that many educators aspire to and its value can never be underestimated.

It is essential that everyone preparing for retirement consider some of the general and personal issues impacting that preparation and the subsequent retirement:

First, how is retirement being redefined? With many Americans retiring from their primary career at increasingly earlier ages, the whole concept of retirement has changed dramatically. When Social Security was first instituted in 1935, age 65 was chosen for the start of benefit payments. Most people living then did not have prolonged lives, but if they did, because of the hard physical nature of the work of many and because of the lesser quality of and access to health care, they were often physically broken down and used up. Today many people enjoy relatively good health for decades after retiring.

Retirement today is often called "rehirement." Since those who quit working only to sit at home and watch television all day often die quickly, retirees know that they must be active and productive with hobbies, charitable causes or new business ventures. In the education profession, one may be able to continue working on a part-time basis in Missouri. Also, eight other states border Missouri, offering many educators an opportunity to teach or work full-time in one of these neighboring states, even as they collect their full PSRS/PEERS benefit. The key to taking advantage of these multiple opportunities is the preparation made in advance.

We all joke about being a greeter at Wal-Mart, but for some extroverts, it may be the perfect position. Perfect, in that retirees don't need much income but they might need an excuse to get out, be active and avoid the isolation that otherwise might engulf them.

Second, when should one plan for retirement? "A stitch in time saves nine," many old-timers used to say about not being wasteful or thoughtless. A dollar saved during ones twenties can be worth more than sixteen by his mid-fifties. Controlling ones spending and saving some money during a career of thirty or more years in the public schools of Missouri makes retirement preparation look easy because it can be. Beginning retirement planning early in ones educational career, planning to be debt-free except for perhaps a home mortgage and planning for higher education for ones children are all part of sound, responsible financial management. A good rule of thumb for saving for retirement is to save as soon as we can, as much as we can, and for as long as we can.

Young parents also have the responsibility of teaching their children the lessons of money management. Unless this job is done adequately, middle-aged parents may be faced with the temptation to "bail out" their young adult children who find themselves in a financial mess.

Even if one finds that he did not begin retirement planning early enough, he can still make some progress when the actual event is within view. Avid do-it-yourselfers can use online software to determine readiness and piece together the effects of pensions, tax sheltered annuities and other investments. Others may find they need to get help from a professional planner. Do this as early as possible. Remember the biggest roadblock to proper retirement planning, as with achieving any long-term goal is PROCRASTINATION.

Next, one needs to determine if (s)he should retire and if so, when. Retirement depends largely upon financial assets, health, desire and emotional readiness. Ideally, educators should plan to retire after 30 years or more of active, full-time employment unless unforeseen circumstances dictate otherwise. Under the PSRS/PEERS system, Missouri educators are able to retire with reduced benefits with 25 years of service or with full benefits when our age and years of service total 80, using the "Rule of Eighty."

Today, many who retire early undertake a second career. Every retirement system has specific requirements for taking a full or reduced retirement pension and provides for early retirement when/if necessary. Pay close attention to the details of a pension plan because the plan is the foundation on which retirement success is built. Many of us spend years planning for retirement while others among us spend more time planning an extensive trip than is ever spent on retirement planning. Some people are anxious to retire so they can lighten up on their responsibilities and enjoy more leisure time. Be prepared: it costs lots more to play and to travel than to work on a daily basis, so plan accordingly.

Be sure to consider the following realities of retirement: work relationships, for the most part, end; professional responsibilities are reduced or eliminated; professional growth opportunities become the retiree's responsibility; much more leisure time exists and more time exists to spend with spouse and family. Every interest has its own place and time on the life stages calendar, so don't put off for some future time a current interest or desire. You may not get a second chance or you may be beyond that desire when the second chance comes along. Note: if you are enjoying retirement, be grateful. Many who planned long and hard for their retirement never got to enjoy it because, as we know, there is only one guarantee in life. Sudden accidents, illness or general poor health can spoil the best laid plans for retirement.

One probably never thinks of "buying" retirement, but investing in a "nest egg" is just that. While a home is a large investment, retirement will be the largest investment of ones lifetime. Mistakenly, many people believe that their pension or retirement plan will pay for full retirement, but this is probably not true. Today, financial planners estimate that retirees will require from 70% to 90% of their pre-retirement income to maintain the same lifestyle. These planners also often suggest that retirees need investments of ten times their final average salary in order to replace the additional 10% - 30% beyond the basic pension benefits to maintain a secure retirement. Such income may be derived from a combination of stocks, bonds and mutual funds from a diversified portfolio of investments. PSRS/PEERS has a goal of replacing 75% of a member's final average salary after thirty years of covered service with cost-of-living (COLA) increases to retain purchasing power. Be aware, though, that COLA increases are limited to 80% above the original retirement benefit. Social Security COLAs go on for life while some retirement plans have no COLA provisions at all.

Real age is more than a number. While retirement may begin in an educator's 50's, staying active, hopefully with MRTA, volunteering and "giving back" can doubtless help one live decades longer. Missouri education, including students and the entire school community, can be grateful beneficiaries of this wealth of experience and enthusiasm of retired educator volunteerism.

All Missouri public school employees are encouraged to visit the PSRS/PEERS website and use the calculators there to determine estimated, expected retirement income. If retirement is impossible because income cannot fulfill needs and desires, leaving teaching just because 30 years have been devoted to education would be most unwise. Consider staying on, since contributions to PSRS/PEERS will continue, including the employer's 100% match, causing a greater number of years to become a part of the calculator thereby increasing income during retirement. Also, there are other job opportunities available to teachers who can retire and draw full benefits even while they undertake a second career.

Employees working in the private sector, employees often find themselves having several employers, increasing the probability of having more than one type of formal retirement plan. Whether an employee has a defined benefit plan, a defined contribution plan or a cash balance plan, private sector employees will discover that they must take responsibility for their own retirement planning. With a defined contribution plan, such as a 401-K plan, the employer annually matches the employee's contributions up to a certain point. Employers who match even a portion of the employee's contribution immediately boost return on investment. Consider a private employer who matches half of employee contributions of up to 5% of their income. That is an immediate, automatic 50% return on investment.

Because of the varying types of private pension plans, employees should not make snap decisions when they leave one job for another. Monies are often best left in place or transferred to a Roth IRA or a self-directed IRA (individual retirement account). Once again, one should consult a tax or financial professional for assistance with planning. Simply taking money from a retirement plan in cash to pay bills for "wants" may surprise one who does not realize that taxes will gobble up a large percentage of the funds.

Fourth, consider what is unique about women and retirement. According to a December 2001 Report of the Missouri General Assembly, *Retirement and Retention of Teachers in Missouri Public Schools*, women make up more than 75% of Missouri's classroom teachers. The life expectancy for women is greater than for men thus increasing the likelihood that women will be retired for a longer time than men will be. The average age for widowhood is 56, and the probability of this change in status means women often must make certain that their spouse maintains sufficient life insurance to make up for any shortfall in retirement assets. The possibility of becoming divorced and receiving an unfavorable division of assets must also be considered. Women, on average, earn 25%-30% less than similarly employed men over their working careers. Many women take significant time off from their careers to raise children. Women also bear a greater share of the burden of caring for aging parents. And, finally, while this is hopefully changing, women traditionally have not been expected to be as knowledgeable and as involved in investments and financial planning as men are. These factors make extensive retirement planning even more critically important for women.

Are there special retirement considerations for "baby boomers"? Boomers, individuals born between 1946 and 1964, make up over one quarter of the U. S. population. Unlike older generations in both lifestyles and attitudes, boomers have lived their lives in relative prosperity, and because they often desire a standard of living that is above their means, borrowing has been a hallmark of their financial lives. A continuing high level of debt will have a tremendous impact both on their ability to retire and on their ability to pay for the goods and services they will continue to desire.

Being so demographically significant, boomers will now face shortages and higher costs for healthcare, senior housing and long term care, just as they experienced with autos, education and housing in their younger years. In fact, there has been a bulge of supply and demand that has moved through the American society with the boomers, which will not subside until they are gone. The inflationary pressures in all of the industries that boomers need to access have been and will likely continue to be tremendous. As the quality of healthcare technology increases, the sheer explosion in demand for its promises may perhaps make some form of rationing of services likely.

Boomers have been more likely than their parents to have multiple employers, often leading to reduced retirement plan balances. Their divorce rate has been higher and their rate of savings lower than that of their parents' generation. These facts point to a strong

possibility that many boomers will be working well into their 60's and 70's in order to continue their more expensive lifestyles. Given their love of activity and socializing, these are not necessarily expectations that will be terribly averse to that generation; however, the wildcard in this equation, from family to family, may be the level of inheritance that will be passed on to boomers from their more frugal parents.

Speaking of parents, boomers currently experience a high likelihood of feeling "sandwiched" between the demands and responsibilities with caring for aging parents and for children or grandchildren at the same time. This tension may also lead to higher levels of part-time employment or more flexible duties that last until the older ages for the boomers. At the very least, trends emphasizing pay for productive results or outcomes in place of hours spend "on the clock" – along with working from home – should continue to grow.

Chapter 8

What are some of the best educational savings plans?

There are several good options for college funding. The best methods involve tax-advantaged savings programs as well as personal savings. A few years ago, the federal government added Section 529 to the Internal Revenue Code. This allowed states to sponsor special educational savings plans. Missouri's M.O.S.T. Plan is the only college savings program that affords Missouri residents a state income tax deduction on the first $8,000 of annual contributions. In general, high levels of contributions per child are allowed. Even greater savings come from the exemption from future federal and state tax on all earnings on monies invested in such plans so long as they are funded for qualified educational expenses. These include expenses for elementary, secondary or higher education without age limits. If never used for such a person in even the extended family, the earnings are simply taxed at ordinary tax rates with a ten percent penalty added. However, plan limitations severely restrict investment flexibility.

In contrast, Coverdell Educational Savings Accounts can be established for a child permitting a full range of investments similar to IRA accounts. However, federal law limits annual contributions per child to $2,000 regardless of their source. Although no income tax deduction rises from contributions, all earnings expended for a recipient's higher education by age thirty are exempt from federal and state income taxes. One can also substitute one related child for another in order to appropriately spend account balances.

Series I Bonds and Series EE Bonds, issued by the U. S. government, accrue interest at relatively conservative rates, but the earnings are exempt from income taxes when used for qualifying college expenses. There does not need to be any advance special designation of these instruments for educational use.

Likewise, any adult can establish an account to benefit a minor child under the Uniform Gifts to Minors Act (UGMA) or the Uniform Trust for Minors Act (UTMA). Although there may be wide latitude involved, all of the money must be spent for the benefit of the child during minority or be made available to him/her upon reaching the age of majority under applicable state law. Earnings from such an account are taxed to the minor. However, the so-called Kiddie Tax causes the earnings to be taxed at a parent's highest marginal rate if the total exceeds rather modest levels.

Starting early and consistently contributing to one or more college savings plans is an excellent way to invest in ones children or grandchildren to give them a head start toward the cost of higher education. CAUTION: saving for future college expenses should NOT take precedence over saving for ones own retirement. College expense money CAN be borrowed, if necessary, but retirement CANNOT!

Chapter 9

Where to live and how to spend time during retirement?

There is a myriad of questions that newly retired individuals and couples must consider and then answer. Decisions . . . decisions. Shall retirement be spent in the community that has always been home, or should I/we relocate? Will the family home be sold or downsized, or will a retirement community better meet my/our needs? Might not consideration be given to living in a community that offers independent living, assisted living, continuing care and long term care? What about buying into a life care community? Will there be a need to maintain two residences, living in Missouri during the pleasant months and "snow bird" living in a warmer climate during the cold winter months? Understanding the amenities available in a retirement community is important. Look not only at the living conditions but also evaluate the cultural, educational, recreational, entertainment, health care proximity and transportation facilities. Consider the cost-of-living and how a change of legal resident will affect the estate. Retirement planners always advise that before any permanent plans are made to actually move to a new location, retirees should "try out" the area being considered to make sure it "fits."

Individuals do not just retire from work. They also transition to the next stage of their lives. Along with marriage, births of children, divorce, death and disability, retirement is one of the most life-changing undertakings with which any individual will ever be fortunate enough to deal. Transitioning from earner and producer, someone whose identity is as much their profession as their name, to consumer, spender, time-to-spare "old geezer" can be a difficult change in reality for many people. Even spending all of that additional time with a spouse can prove to be a problem for some people. Unless one decides to just give up on retirement and go back to work, it will all definitely take some adjustment and some changes in thinking.

George Brett has been quoted as saying, "We retire from work, not from life." Some people look forward to retirement as an opportunity for new challenges and time for things they had not, until now, had time to enjoy. Many will enjoy just relaxing while others will travel, golf, fish, volunteer, continue their own education, start a business or even take a part-time or a full-time job working for someone else. Hopefully, these jobs will not be taken out of necessity to maintain a lifestyle but because working is what is desired by the retiree. Besides providing enjoyment, many retirees find that their hobbies become income producing. In order to make a contribution, share their talents with others for the good of society, or simply to "give back," some people may work part time or become a consultant in their chosen profession. On the other hand, many other retirees will want the challenge of doing something completely different. Whatever the decision, retirees should not put off doing the things they always dreamed of doing during retirement. It may be later than we think. There are no guarantees of good health or long life after retirement.

Chapter 10

What about that nest egg we have been saving?

In the past, retirement planners have thought of retirement income as a three-legged stool – Social Security benefit, employer provided pension and personal savings and investments, referred to by some as a retirement "nest egg." Some now consider continued employer paid health insurance as the stool's fourth leg. Public employees are not likely to ever receive health insurance paid by their previous employer. It now would seem that most will be lucky to be able to continue in an employee group health plan at their own expense.

Longevity and inflation are two of the most important considerations when planning for retirement. Be assured that the cost of living will continue to increase. Many people who retired in the 1980' and the 1990's thought they were well-prepared financially for retirement only to find themselves going back to work part- or full-time in order to maintain their desired lifestyle. Between 1947 and 2004, the consumer price index had an annual increase of 4.7%. The average life expectancy of a 65-year-old male is now 81 years and that of a female is 85 years. The risk of dying too young is now being replaced by the risk of living too long. For many, the fear of depletion of assets is becoming increasingly worrisome. It is therefore essential that currently active workers plan and save for a prolonged retirement.

What many people fail to consider in retirement planning is the "spend down" phase. It may be just as important to plan and manage the "spend down" phase as it was to plan and accomplish the accumulation phase. If one is wise, and fortunate, he will be able to maintain his desired lifestyle. Financial authorities recommend that we not take more than 4.5% to 5% of our "nest egg" balances each year. They also recommend taking smaller amounts in early years of retirement in order to permit the fund to continue to grow and to allow more in later years to compensate for inflation. There is no one rule to apply in all economic conditions. When earnings on investments do well, one may be able to spend more without fear of spending too much. During economic downturns, he may have to tighten his belt a bit, figuratively speaking.

A personal residence is not normally considered a liquid asset since everyone must have a place to live. However, if one becomes short on other resources and finds himself "house poor," either because all available resources are tied up in the home or because taxes, insurance and upkeep keeps his pockets drained, he may come to think of that home as a possible source of income in his advanced years. He may decide to employ one of four basic options as a way for a home to provide retirement income. Those are: selling and buying a less expensive home, selling and renting, arranging a sale-leaseback or arranging for a "reverse mortgage." The first two options are for retirees who want to sell and move to capture financial and tax advantages. The last two are for retirees who want to remain in their current home but wish to utilize some or all of the equity in their home. A fifth option would be to assume a conventional home-equity loan, however, one must understand that such a loan requires mortgage payments and anyone finding himself strapped for cash would not seriously entertain the fifth option.

The *Home Equity Conversion Mortgage* (HECM) is the only reverse mortgage insured by the federal government. HECM mortgages are insured by the Federal Housing Administration (FHA). The FHA tells lenders how much they can lend a homeowner, based on the applicant's age and the value of the home. The HECM program limits the loan costs, and the FHA guarantees that lenders will meet their obligations. The money one gets from HECM can be used for any purpose one chooses. These issues are usually in the form of a lump sum of cash, a credit line or a monthly payment for a specified period of time. HECM loans are available in all fifty states, the District of Columbia and Puerto Rico. Texas state law does not permit residents to receive these funds in the form of credit lines. A good source of information about HECM is the AARP publication #D12894 (404) called *Home Made Money, A Consumer's Guide to Reverse Mortgages.*

It is unlikely that one's death and the depletion of his assets will occur at the same time. That is why one needs to plan accordingly. Because of accident, terminal illnesses and many unforeseen tragedies, it is essential that one not wait until the senior years to put his estate in order. It is a detailed process that takes a good deal of time and involves much planning for many and various eventualities.

Chapter 11

What do we do when/if some nest egg remains?

There is a multitude of *trusts* available which are all basically either *revocable* (*testamentary*) or *irrevocable*. A *testamentary trust* is created by a *will* to become effective when the *grantor* dies. An *irrevocable* trust is created during ones lifetime to become effective upon his death. There are numerous *revocable living trusts: by-pass, special needs, charitable lead* and *charitable remainder,* to name but a few.

Many instruments exist to assist with disposal of any leftover "nest egg:"

- Establishing a *Charitable Remainder Trust* (CRT) allows one to donate assets to a charity and in return receive tax breaks as well as a lifetime stream of income. When the *grantor* dies, the assets become the property of the charity. Trust assets can grow during the life of the trust, increasingly providing income to the donor (or *grantor*). Taxes on this charitable trust are avoided because the assets are held in trust for the charity, a non-profit and therefore tax-exempt organization that can also sell the assets without capital gains taxes. The charity cannot touch the assets until the benefactor dies.
- A *Charitable Remainder Annuity Trust* (CRAT) establishes an annuity with a known payout to the donor. The payout must meet IRS rules and must be five or more percent of the fair market value of the assets placed in the trust on the day the trust is established. Stocks which have netted tremendous capital gains are great choices for this type of trust.
- The *Charitable Remainder Unitrust* (CRUT) is a more popular option because the income from the trust grows as the assets do. When establishing the unitrust, select a yearly payout rate that represents a percentage of trust assets. The minimum rate is 5%. Again, follow IRS rules. If the portfolio does well, the retiree does well also. During bad years on Wall Street, some trusts allow a retiree to dip into the principal to maintain a constant income stream. Unlike the CRAT, a unitrust permits subsequent contributions.
- A *Charitable Lead Trust* is not as popular with middle and moderate upper class individuals as it is with the super wealthy. Jackie Kennedy Onassis left her estate to a charitable lead trust. Her trust, which provides for multiple charities, will last for 24 years. After the trust expires, the remaining estate reverts to her family. With a charitable remainder trust, the charity benefits until the last heir dies. With a charitable lead trust, the charity begins receiving income as soon as the trust is established. The charity then returns the principal to the donor or the donor's heirs after a set number of years, or when the trust creator dies. A charitable lead trust can be initiated before or at a benefactor's death. The donor reports the gift at that time and pays any gift taxes. If the assets escalate in value, they pass along tax-free at a higher value to the heirs. Any growth is not subject to estate taxes. Instead of waiting years for the assets, a charity receives the benefits immediately.
- When interest rates are low, a *Charitable Gift Annuity* is a popular alternative for those who want to make a donation to a charity in exchange for a stream of

income payments continuing for life. The size of the payment depends on the amount donated and the age of the donor. The older the donor, the higher the annuity. Part of the payment is taxable as income and part is a tax-free return of principal. This is an alternative to the CRT for those wishing to make more modest donations and receive an income stream for life. Charity gift annuity payments are intentionally smaller than regular annuities offered through insurance companies. The charity does not want to be perceived as being in competition with insurance companies. What's more, a charity would love to have a significant contribution left at the end of the annuity. When the donor dies, all the money in the gift annuity belongs to the charity.

- The reason for establishing a *Private Foundation* or *Family Foundation* may vary, but the larger goal is much the same – to launch an enduring legacy of charitable giving. A family foundation allows the family to direct their own philanthropic efforts, express their values and of course, reduce income and estate taxes. There are administrative costs, recordkeeping and tax rules to follow. In some cases, simply giving to a public charity is simpler and creates a similar social impact. For some, though, the administrative complications are more than offset by the personal rewards of having a family foundation. A foundation requires a major financial commitment – probably a minimum of $1M. At that level, one must distribute 5% annually as required by U.S. law. If one gives cash to a public charity, donor-advised fund or local community foundation, he may be able to deduct up to 50% of the adjusted gross income. With a family foundation, the donation is limited to 30% of adjusted gross income. Donations to a private foundation are limited to 20% of adjusted gross income.
- Donations to a private foundation such as those of Ewing Kauffman of or Bill Gates of Microsoft.
- As Missourians we may wish to donate to a Community Foundation: the St. Louis Community Foundation, the Greater Kansas City Community Foundation or one of the more than 500 which exist in Missouri.
- Donor Advised fund donations made through a financial institution which acts as intermediary between donors and charities. Donors make decisions about which charity receives the funds. After the original benefactor's death, family or friends can continue to recommend who will receive the donor-advised funds Foundations use professional financial specialists so they charge an annual fee.
- Of course, one may also gift up to $12,000 annually* to any individual and to as many individuals as he wishes. There are no tax consequences to the recipient. (*Tax laws change, so check the federal law each year to determine this amount. Such gifts do have a lifetime limit of $1M, and gifts that exceed the amount annually allowed have further, rather onerous filing implications.)
- **As Missouri educators and public school employees, we certainly should consider investing in our own profession by giving to the non-profit, tax-exempt Missouri Retired Teachers Foundation.**

Chapter 12

Estate Planning 101, or will there be an inheritance?

Estate planning is probably the most overlooked, least understood but perhaps most important aspect of financial planning. Many people believe that estate planning is only for the wealthy, but nothing could be further from the truth. If one adds up all of his assets, he will discover that he is probably worth more than he thought even though he may not be wealthy. Estate planning allows one to distribute assets to children, grandchildren, friends or charities both during his lifetime and after his death.

The giving-while-living movement has gained prominence and momentum as exemplified by the Warren Buffet and the Bill Gates families. Many individuals wish to see the effects of their giving and so make gifts and transfers during their lifetime. There are perhaps some logically compelling reasons. With longer life expectancy, seniors realize that it may be some time before their loved ones receive an inheritance. Early gifts can reduce the stress on families or increase their standard of living. College funding for grandchildren may enable them to attend college to enhance lifetime income and enjoyment. Seniors may feel that this is a way to see how their families can handle wealth. Gifts handled now against the donor's wishes may result in withholding of future gifts being given through trusts. While assets retained may appreciate in value, many seniors realize that if these assets are given now, their future appreciation will be in the hands of either the donor's heirs or their favorite charities. It must be remembered here that the first rule is to retain control of any and all assets needed for living a longer life.

Upon death, a donor may pass assets on to survivors by *will*, *trust*, non-probate *t*ransfer or *probate*. Because *probate* can be very expensive and "gobble up" much of the estate through personal representative and attorney's fees and through publication, bonding and court costs, most people seek to avoid *probate* whenever possible. However, be aware that if there are outstanding claims made against an estate, *probate* will doubtless be a necessity. Studies show that U. S. net worth is concentrated in roughly 50 million U. S. households. These households control 95% of total consumer net worth. Of these, baby boomers account for 40% of U. S. millionaires with annual incomes greater than $75,000. The median value of baby boomer inheritance will be about $48,000 with 2% of boomers receiving more than $100,000. Roughly 15% of baby boomers expect to receive an inheritance It is estimated that baby boomers will withdraw about $300 B annually from workplace retirement accounts.

Inheritance as a source of retirement income should not be depended upon for most people. Even if seniors have substantial sums of money, because they are living longer, they may need to use what would have been their bequest to their children and/or grandchildren. . *Gift* and *estate taxes* apply whether assets are given away during a *grantor*'s lifetime or pass through the estate after his demise. There is an unlimited deduction of assets between husband and wife, which may be lost unless properly used or assigned. If this is not handled properly, the second to die will leave a larger estate but will probably not escape paying taxes.

The federal estate tax (most **inappropriately** called the death tax!!) is a transfer tax imposed on the value of property owned at the time of death. This tax underwent an overhaul in 2001. The new law specified that in 2005, tax law would exclude the first $1.5 M of an estate from federal taxes. The *marginal tax rate* for all money above $1.5M was 47%. In 2006 the exclusion went to $2 M, in 2007 to $2.5, in 2008 to $3 M and in 2009, it will move to $3.5 M with a 45*% marginal tax rate*. In 2010 the estate tax will go **completely away**, for one year only. Then, unless there is congressional action specifying otherwise, the *estate exclusion* will revert back to the 2001 level of $1M with a *marginal tax rate* of 55%. The gift tax lifetime exclusion was $1M in 2001 and was indexed up to $3.5 M in 2009 with a *marginal tax rate* of 35%. There has been discussion of making the 2001 tax changes permanent; however, it would be wise to plan ones estate as if the *estate* and *gift tax* will return to 2001 levels.

While one is in good health and of sound mind, it is imperative that he/she meet with legal, tax and accounting estate planners and arrange for the appropriate documents to be drawn that will handle his/her affairs upon becoming incompetent and subsequently dying. Those arrangements are referenced throughout this booklet, but they are discussed at length in Chapter 5 in understanding legal terms and in Chapter 11 in dealing with ones remaining "nest egg."

A *will* is a legal document that states who will receive the remaining assets. If one dies *intestate* (without a will), the laws of the state in which he last resided will determine how the assets are distributed, with all assets going through *probate*. A *will** alone does allow one to not avoid *probate*; however, it is possible to title property so that it does not require probate. Non-probate transfers may be made through transfer on death (TOD) or pay on death (POD) beneficiary deeds. (*One is encouraged to remember that all of his personal finances is public knowledge if he has only a *will.* However, all real and tangible property placed in a trust is NOT available to public scrutiny. So, if one wishes to keep his financial matters private, he should consider establishing a trust.)

Appendix

Example 1: (Compounding)

Suppose an investment of $2,000 beginning at age 24. The tax qualified account earns 8% for the next 36 years. When the investor is age 33, that $2,000 will have grown to $4,000; at age 42 to $8,000; at 51to $16,000 and at age 60 to $32,000 – all this from $2,000 tucked away early and compounded for 36 years. What if the investment began when the investor was 33? At age 60, there will be only $16,000, or half as much. What if the investor waits until age 42 to put away the $2,000? At age 60, there will be only $8,000, or one fourth as much of that invested at age 24. So, compounding may truly be the eighth wonder of the world, as Albert Einstein believed it was.

Example 1 – B: (The cost of waiting)

Unable to afford to save at age 24, couldn't one just put in more money later? Yes, but there is a huge cost for waiting. Suppose $100 per month is saved for ten years. Then no more is added but the account is permitted to grow for twenty years until the investor is age 55. The resulting balance is just over $90,000. How much will it take per month, beginning at age 35 and contributing for twenty years to match that $10,000 saved at age 24? $153 per month. Amount invested at age 24 = $12,000. Amount needed to invest at age 35 = $36,725. The cost of waiting ten years to start investing is 200% more in total contributions in order to arrive at $90,000 by age 55. Compounding takes advantage of TIME and money.

Comment: What about the health care crisis?

As most Americans are aware, affordable, comprehensive health care is a NATIONAL and indeed an INTERNATIONAL issue, not just a regional or local issue. Don't be misled into believing that we buy cheap consumer goods from foreign countries which provide their workers better health care plans than American workers enjoy. Health care costs must necessarily become a part of product cost; therefore, foreign countries which provide NO health care coverage or fringe benefits to their workers can create far cheaper products than responsible employers who offer their employees these advantages. The concern about the health care crisis isn't just expressed in board rooms. In a July 2006 survey of the general public by the Kansas Hospital Association, nearly three in four respondents expressed concern about the cost of health care. The survey, detailed in the July 4, 2006 edition of the *Kansas City Star*, also indicated that one in three respondents think the government should offer an insurance program like Medicare to all Americans.

Example 2: (Tax-Free)

Say for example that people pay 25% federal and 6% Missouri income tax on their highest bracket of income. Therefore, they would have to pay an additional 31% for an equivalent benefit they had to provide for themselves with taxable income. To determine the advantage of tax free benefits, calculate marginal combined income tax rate and divide the cost of the benefit by (1 minus r) where r = highest marginal income tax rate.

Therefore:

$$\frac{\$1{,}000}{1-(.31)} \quad \text{equals} \quad \frac{\$1{,}000}{.69} \quad \text{equals} \quad \$1{,}449.28 \text{ (per \$1,000 of benefits)}$$

You do not have to be a math teacher to see that $449.28 is well worth saving! Not only are premiums not taxable income to you, but the benefits you receive are also tax free.

Example 3: (Tax-Deferred)

Assume a savings of $2,000 per year for retirement in addition to the required pension contributions. The plans mentioned in the text allow investing the entire amount. Investing in a taxable account permits only $1,580 after tax.* Further assume this savings and investment for thirty years and earning 8% compounded interest over that period. In the taxable account assume that taxes must be paid annually at long term capital gains rates. This is the resulting difference:

	Tax-Deferred Account	Taxable (21%)
Invested:	$2,000 for 30 years	$1,580 for 30 years ($420 tax paid)
Rate of return:	8% (tax deferred)	6.32% (after tax)
Result:	$226,566	$132,177

Estate Tax Schedule

Year	**Estate tax applicable exclusion**	**Lifetime gift tax exemption**	**GST tax exemption**	**Top estate, gift & GST tax rate**
2001	$ 675,000	$ 675,000	$1,060,000	55%
2002	1,000,000	1,000,000	1,060,000 ‡	50%
2003	1,000,000	1,000,000	1,060,000 ‡	49%
2004	1,500,000	1,000,000	1,500,000	48%
2005	1,500,000	1,000,000	1,500,000	47%
2006	2,000,000	1,000,000	2,000,000	46%
2007	2,000,000	1,000,000	2,000,000	45%
2008	2,000,000	1,000,000	2,000,000	45%
2009	3,500,000	1,000,000	3,500,000	45%
2010	Not applicable	1,000,000	Not applicable ‡	35% (gift tax only)
2011	1,000,000	1,000,000	1,060,000	55%

‡ To be adjusted for inflation using 2001 as the base year. (This tax schedule is reprinted from Bank of America's Private Bank wealth strategies series publication.)

*Many employees today pay 15% federal and 6% Missouri income taxes on their highest marginal income. Marginal tax rates may be determined by using the tax tables or by consulting an income tax preparer. This is not an average tax rate but the rate one should use to determine the cost of benefit of tax deductibility and/or deferral.

Glossary of Terms

Every profession establishes a repertoire of commonly used terms, abbreviations, acronyms and reference words, sometimes called jargon. Because investment and financial management cover so many careers and business types, the jargon is elaborate, extensive and overlapping. Hence, the extensive glossary and the acronyms and abbreviations. Broad classifications of investments are domestic (U.S. based), international and global. Markets are further classified, according to maturity, as developed, developing and emerging. Anyone interested in learning more about the world of investing and finance may wish to purchase the ***Dictionary of Finance and Investment.***

accredited investor – under Securities and Exchange Commission Regulation D, a wealthy investor who does not count as one of the maximum of 35 people allowed to put money into a private limited partnership. To be accredited, such an investor must have a net worth of at least $1 million or an annual income of at least $200,000, or must put at least $150,000 into the deal, and the investment must not account for more than 20% of the investor's worth. Private limited partnerships use accredited investors to raise a larger amount of capital than would be possible if only 35 less-wealthy people could contribute.

allocation – In investing, distributing money according to an established plan so that not all funds are in one investment type, sector or industry to diminish risks of boom and bust. Investments are then more stable, for as one segment of the market goes down, another should go up. We will make money with the sectors we own that are in favor while others we own may be out of favor.

amortization – refers to the reduction of debt by regular payments of interest and principal sufficient to pay off a loan by maturity.

annuity – form of a contract sold by life insurance companies that guarantees a fixed or variable payment to the annuitant (purchaser) at some future time, usually retirement. All capital in the annuity grows tax-deferred. Key considerations when buying an annuity are the financial soundness of the insurance company, the returns it has paid in the past, and the level of fees and commissions paid to salesmen.

antique – anything from former or ancient times; a piece of furniture, glassware, silverware, jewelry, etc. made in a former period, usually 100 years earlier than the present time.

arbitrage – profiting from differences in price when the same security, currency or commodity is traded on two or more markets. For example, an arbitrageur simultaneously buys one contract of gold in the New York market and sells one contract of gold in the Chicago market, locking in a profit because at that moment the price on the two markets is different. (The arbitrageur's selling price is higher than the buying price.) Index arbitrage exploits price differences between stock index futures and underlying stocks. By taking advantage of momentary disparities in prices between markets, arbitrageurs perform the economic function of making those markets trade more efficiently.

asset – anything having commercial or exchange value that is owned by a business, institution or individual.

asset-backed securities – bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other providers of credit and often "enhanced" by a bank LETTER OF CREDIT or by insurance coverage provided by an institution other than the issuer. .

back-end load - redemption charge an investor pays when withdrawing money from an investment. Most common in mutual funds and annuities, the back-end load is designed to discourage withdrawals.

bankruptcy – state of insolvency. Chapter 7 deals with liquidation and redistribution of assets. Chapter 11 deals with reorganization, providing that a court doesn't rule otherwise, a debtor remains in possession of the business and in control of its operation.

bear market – prolonged period of falling prices. A bear market in stocks is usually brought on by the anticipation of declining economic activity, and a bear market in bonds is caused by rising interest rates.

benchmark – a standard or point of reference in measuring or judging quality or value.

blue chip – common stock of a nationally known company that has a long record of profit growth and dividend payment and a reputation for quality management, products and services.

bond – an interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specific intervals, and to repay the principal amount of the loan at maturity. Bondholders have an IOU from the issuer, but no corporate ownership privileges, as stockholders do

broker – in insurance, the person who finds the best insurance deal for a client and then sells the policy to the client. In real estate, the person who represents the seller and gets a commission when the property is sold. In securities, the person who acts as an intermediary between a buyer and seller, usually charging a commission.

bull market – prolonged rise in the prices of stocks, bonds or commodities. Bull markets usually last at least a few months and are characterized by high trading volume.

call date – date on which a bond may be redeemed before maturity. If called, the bond may be redeemed at par or at a slight premium to par. For example, a bond may be scheduled to mature in 20 years but may have a provision that it can be called in 10 years it is advantageous for the issuer to refinance the issue. The date 10 years from the issue date is the call date. When buying a bond, it is important to know the bond's call date, because the buyer cannot be assured that (s)he will receive interest from that bond beyond the call date.

call provision – clause in a bond's indenture that allows the issuer to redeem the bond before maturity. The call provision will spell out the first call date and whether the bond will be called at par (the face value of the security) or at a slight premium to par. Some preferred stock issues also have call provisions spelling out the conditions of a redemption.

call risk - to a bondholder that a bond may be redeemed before scheduled maturity. Bondholders should read the call provisions in a bond's indenture to understand the earliest potential call date for their bond. The main risk of having a bond called before maturity is that the investor will be unable to replace the bond's yield with another similar-quality bond paying the same yield. The reason the bond issuer will call the bond is that interest rates will have fallen from the time of issuance, and the bond can be refinanced at lower rates.

capital asset – long-term asset that is not bought or sold in the normal course of business. General speaking, the term includes fixed assets – land, buildings, equipment, furniture and fixtures. The IRS definition of capital assets includes security investments.
capital flight – movement of large sums of money from one country to another to escape political or economic turmoil or to seek higher rates of return.
capital gain – difference between an asset's purchase price and selling price when the difference is positive. If it is negative it is referred to as a *capital loss*.
capital gains tax – tax on profits from the sale of capital assets.
capital investment – outlay of money to acquire or improve capital assets such as buildings and machinery; also called a capital expenditure.
cash flow – in a larger financial sense, an analysis of all the changes that affect the cash account during an accounting period . . . More cash coming in than going out creates a positive cash flow. Less cash coming in than going out creates a negative cash flow. In investments, net income plus depreciation and other non-cash charges. In this sense, it is synonymous with cash earnings. Investors focus on cash flow from operations because of their concern with a firm's ability to pay dividends.
certificate for automobile receivables (CARS) – pass through security backed by automobile loan paper of banks and other lenders.
certificate of deposit (CD) – debt instrument issued by a bank that usually pays interest. Institutional CDs are issued in denominations of $100,000 or more, and individual CDs start as low as $100. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the marketplace.
class – securities having similar features. Stocks and bonds are the two main classes but they are further subdivided into various classes, i.e. mortgage bonds and debentures, issues with different rates of interest, common and preferred stock, or Class A and Class B common. The different classes in a company's capitalization are itemized on its balance sheet. Class also refers to options of the same type – puts or calls – with the same underlying security. A class of option having the same expiration date and exercise price is termed a series.
closed-end fund – type of fund that has a fixed number of shares usually listed on a major stock exchange. Unlike open-end mutual funds, closed end funds do not stand ready to issue and redeem shares on a continuous basis.
closed fund – a mutual fund that has become too large and is no longer issuing shares.
collateral – an asset pledged to a lender until a loan is repaid. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.
collectibles – rare objects collected by investors. Examples: stamps, coins, oriental rugs, antiques, baseball cards, photographs. Collectibles typically rise sharply in value during inflationary periods, when people are trying to move their assets from paper currency. Collectible trading for profit can be quite difficult because of the limited number of buyers and sellers.
compounding – when interest is earned on principal plus on interest that was earned earlier. If $100 is deposited in a bank account at 10%, the depositor will be credited with $110 at the end of the first year and $121 at the end of the second year. The extra $1 was

earned on the $10 interest earned the previous year. Interest can be compounded annually, daily, quarterly, half-yearly or on some other basis.

dealer – an individual or firm acting as a principal in a securities transaction; one who purchases goods or services for resale to consumers. Since most brokerage firms operate both as brokers and as principals, the term broker-dealer is commonly used.

debenture – general debt obligation backed only by the integrity of the borrower and documented by an agreement called an indenture. An unsecured bond is a debenture.

derivatives - short for derivative instrument, a contract whose value is based on the performance of an underlying financial asset, index or other investment. For example, an ordinary option is a derivative because its value changes in relation to the performance of an underlying stock. A more complex example would be an option on a futures contract, where the option value varies with the value of the futures contract, which, in turn, varies with the value of an underlying commodity or security. Derivatives are available based on the performance of assets, interest rates, currency exchange rates, and various domestic and foreign indexes. Derivatives afford leverage and, when used properly by knowledgeable investors, can enhance returns and be useful in hedging portfolios. They gained notoriety in the late '80's, however, because of problems involved in program trading, and in the '00's, when a number of mutual funds, municipalities, corporations and leading banks suffered large losses because unexpected movements in interest rates adversely affected the value of derivatives.

discount rate – interest rate that the Federal Reserve charges member banks for loans, using government securities or eligible paper as collateral. This provides a floor on interest rates, since banks set their loan rates a notch above the discount rate.

diversification – the spreading of risk by putting assets in several categories of investments – stocks, bonds, money market instruments and precious metals, for instance, or several industries, or a mutual fund, with its broad range of stocks in one portfolio.

dividend – distribution of earnings to shareholders prorated by class of security and paid in the form of money, stock, scrip, or rarely, company products or property. The amount is decided by the board of directors and is usually paid quarterly. Dividends must be declared as income in the year they are received. Mutual fund dividends are paid out of income, usually on a quarterly basis from the fund's investments. The tax on such dividends depends on whether the distributions resulted from capital gains, interest income or dividends received by the fund.

dollar cost averaging (or constant dollar plan) – a method of accumulating assets by investing a fixed amount of dollars in securities at set intervals. The investor buys more shares when the price is low and fewer shares when the price is high; the overall cost is lower than it would be if a constant number of shares were bought at set intervals.

domestic – doing business in the United States.

escrow – money, securities or other property or instruments held by a third party until the conditions of a contract are met.

equity –In investments, ownership interest possessed by shareholders in a corporation – stock as opposed to bonds.

exclusion – In taxes, on a tax return, items that must be reported but not taxed. Gift tax rules allow donors to exclude annually up to $10,000 (in 2005), $11,000 (in 2006)

$12,000 (in 2007) worth of gifts to individual recipients. (For current rates consult the Estate Tax Laws that were enacted in 2001.)

federal funds rate – interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the *prime rate* and the *discount rate*, which are periodically changed by banks and by the *Federal Reserve Board*, respectively.

federal home loan mortgage corporation (FHLMC) – publicly chartered agency that buys qualifying residential mortgages from lenders, packages them into new securities backed by those pooled mortgages, provides certain guarantees and then re-sells the securities on the open market. The corporation's stock is owned by savings institutions across the U. S. and is held in trust by the Federal Home Loan Bank System.

federal national mortgage association (FNMA) - publicly owned, government-sponsored corporation chartered in 1938 to purchase mortgages from lenders and re-sell them to investors. The agency, known by the nickname Fannie Mae, mostly packages mortgages backed by the Federal Housing Administration, but also sells some non-governmentally backed mortgages. Shares of FNMA itself, known as Fannie Maes, are traded on the New York Stock Exchange. The price usually soars when interest rates fall and plummets when interest rates rise, since the mortgage business is so dependent upon the direction of interest rates.

federal reserve bank – one of the 12 banks that, with their branches, make up the Federal Reserve System. These banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco. The role of each Federal Reserve Bank is to monitor the commercial and savings banks in its region to ensure that they follow Federal Reserve Board regulations and to provide those banks with access to emergency funds from the discount window. The reserve banks act as depositories for member banks in their regions, providing money transfer and other services. Each of the banks is owned by the member banks in its district.

federal reserve board (FRB) – governing board of the Federal Reserve System. Its seven members are appointed by the President of the United States, subject to Senate confirmation, and serve 14-year terms. The Board establishes Federal Reserve System policies on such key matters as reserve requirements and other bank regulations, sets the discount rate, tightens or loosens the availability of credit in the economy and regulates the purchase of securities on margin.

federal reserve system – system established by the Federal Reserve Act of 1913 to regulate the U. S. monetary and banking system. The Federal Reserve System (the Fed) is comprised of 12 regional Federal Reserve Banks, their 24 branches and all national and state banks that are part of the system. National banks are stockholders of the Federal Reserve Bank in their region. The Federal Reserve System's main functions are to regulate the national money supply, set reserve requirements for member banks, supervise the printing of currency at the mint, act as clearinghouse for the transfer of funds throughout the banking system and examine member banks to make sure they meet various Federal Reserve regulations. Although the members of the system's governing board are appointed by the President of the United States and confirmed by the Senate, the Federal Reserve System is considered an independent entity, which is supposed to make its decisions free of political influence. Governors are appointed for terms of 14 years, which further assures their independence.

fixed income – investment security that pays a fixed rate of return. This usually refers to government, corporate or municipal bonds, which pay a fixed rate of interest until the bonds mature, and to preferred stock, paying a fixed dividend. Such investments are advantageous in a time of low inflation, but do not protect holders against erosion of buying power in a time of rising inflation since the bondholder or preferred shareholder gets the same amount of interest or dividends even though consumer goods cost more.

flat tax – tax applied at the same rate to all levels of income. It is also discussed as an alternative to the progressive tax.

front-end load – sales charge applied to an investment at the time of initial purchase. There may be a front-end load on a mutual fund, for instance, which is sold by a broker. Annuities, life insurance policies, and limited partnerships can also have front-end loads. From the investor's point of view, the earnings from the investment should make up for this up-front fee within a relatively short period of time.

funded pension plan – pension plan in which all liabilities are fully funded. A pension plan's administrator knows the potential payments necessary to make to pensioners over the coming years. In order to be funded, the plan must have enough capital contributions from the plan sponsor, plus returns from investments, to pay those claims. Employees are notified annually of the financial strength of their pension plans, and whether or not the plans are fully funded.

fund family – mutual fund company offering funds with many investment objectives. A fund family may offer several types of stock, bond and money market funds and allow free switching among their funds. Many investors find it convenient to place most of their assets with one or two fund families because of the convenience offered by such switching privileges.

futures contract – agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date. The price is established between buyer and seller on the floor of a commodity exchange, using the open outcry system. A futures contract obligates the buyer to purchase the underlying commodity and the seller to sell it, unless the contract is sold to another before settlement date, which may happen if a trader wants to take a profit or cut a loss. This contrasts with options trading, in which the option buyer may choose whether or not to exercise the option by the exercise date.

general partner – one of two or more partners who are jointly and severally responsible for the debts of a partnership; managing partner of a limited partnership, who is responsible for the operations of the partnership and, ultimately, any debts taken on by the partnership. The general partner's liability is unlimited. In a real estate partnership, the general partner will pick the properties to be bought and will manage them. In an oil and gas partnership, the general partner will select drilling sites and oversee drilling activity. In return for these services, the general partner collects certain fees and often retains a percentage of ownership in the partnership.

gift tax – graduated tax, levied on the donor of a gift by the federal government and most state governments when assets are passed from one person to another.

global mutual fund – mutual fund that can invest in stocks and bonds throughout the world. Such funds typically have a portion of their assets in American markets as well as Europe, Asia and developing countries.

going long – purchasing a stock, bond or commodity for investment or speculation. Such a security purchase is known as a long position.

going private – movement from public ownership to private ownership of a company's shares or through purchases by an outside private investor. A company usually goes private when the market price of its shares is substantially below their stock value and the opportunity thus exists to buy the assets cheaply.

going public – securities industry phrase used when a private company first offers its shares to the public. The firm's ownership thus shifts from the hands of a few private stockowners to a base that includes public shareholders. At the moment of going public, the stock is called an initial public offering.

going short – selling a stock or commodity that the seller does not have. An investor who goes short borrows stock from his or her broker, hoping to purchase other shares of it at a lower price. The investor will then replace the borrowed stock with the lower priced stock and keep the difference as profit.

government national mortgage association (GNMA) – government owned corporation, nicknamed Ginnie Mae, which is an agency of the U. S. Department of Housing and Urban Development. GNMA guarantees, with the full faith and credit of the U. S. Government, full and timely payment of all monthly principal and interest payments on the mortgage-backed pass-through securities of registered holders. The securities, which are issued by private firms, such as mortgage bankers and savings institutions and typically marketed through security broker-dealers, represent pools of residential mortgages insured or guaranteed by the Federal Housing Administration, the Farmer's Home Administration (FmHA) and/or the Veterans Administration.

governments – securities issued by the U. S. government, such as Treasury bills, bonds, notes, and savings bonds. Governments are the most credit-worthy of all debt instruments since they are backed by the *full faith and credit of the U. S. government*, which if necessary can print money to make payments. Also called *treasuries*. Additionally, debt issues of federal agencies, which are not directly backed by the U. S. government.

government securities – securities issued by U. S. government agencies, such as the Resolution funding corporation (REFCORP) or the Federal Land Bank; also called agency securities. Although these securities have high credit ratings, they are not considered to be government obligations and therefore are not directly backed by the full faith and credit of the government as treasuries are.

growth rate – percentage rate at which the economy, stocks, or earnings are growing. The economic growth rate is normally determined by the growth of the *gross domestic product*. Individual companies try to establish a rate at which their earnings grow over time. Firms with long-term earnings growth rates of more than 15% are considered fast-growing companies. Analysts also apply the term growth rate to specific financial aspects of a company's operations, such as dividends, sales, assets and market share. Analysts use growth rates to compare one company to another within the same industry.

growth stock – stock of a corporation that has exhibited faster-than-average gains in earnings over the last few years and is expected to continue to show high levels of profit growth. Over the long run, growth stocks tend to outperform slower-growing or stagnant stocks. Growth stocks are riskier investments than average stocks, however, they usually sport higher price/earnings ratios and make little or no dividend payments to shareholders.

gross domestic product (GDP) - market value of the goods and services produced by labor and property in the United States. GDP is made up of consumer and government purchases, private domestic investments, and net exports of goods and services.

grantor – in investments, one who sells a call option or a put option and collects premium income for doing so. In law, one who executes a deed conveying title to property or who creates a trust. Also called a settlor.

guarantor – one who makes or gives a guarantee.

hedge fund - private investment partnership (for U. S. investors) or an off-shore investment corporation (for non-U. S. or tax-exempt investors) in which the general partner has made a substantial personal investment, and whose offering memorandum allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks on speculative strategies, including program trading, selling short, swaps and arbitrage. A fund need not employ all of these tools all of the time; it must merely have them at its disposal. Since hedge funds are not limited to buying securities, they can potentially profit in any market environment, including one with sharply declining prices. Because they move billions of dollars in and out of markets quickly, hedge funds can have a significant impact on the day-to-day trading developments in the stock, bond and futures markets.

hot issue – a newly issued stock that is in great public demand.

illiquid – In finance, a firm that lacks sufficient cash flow to meet current and maturing obligations. In investments, not readily convertible into cash, such as stock, bond, or commodity that is not traded actively and would be difficult to sell at once without taking a large loss. May include real estate and collectibles such as rare stamps, coins or antique furniture.

index – a statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base period or from the previous month. For instance, the consumer price index uses 1982-84 as the base period. That index, made up of key consumer goods and services, moves up and down as the rate of inflation changes. Indexes also measure the ups and downs of stock, bond and commodities markets, reflecting market prices and the number of shares outstanding for the companies in the index. Some well-known indexes are the New York Stock Exchange Index, the American Stock Exchange Index, Standard & Poor's Index and Value Line Index/

index fund – a mutual fund that has a portfolio matching that of a broad-based portfolio. This may include the Standard & Poor's 500 Index, indexes of mid- and small-capitalization stocks, foreign stock indexes and bond indexes, to name a few.

inflation – rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market – in other words, too much money chasing too few goods.

insurance – the system whereby individuals and companies that are concerned about potential hazards pay premiums to an insurance company, which reimburses the insured in the event of loss. The insurer profits by investing the premiums it receives.
international mutual fund – mutual fund that invests in securities markets throughout the world so that if one market is in a slump, profits can still be earned in others. Fund managers must be alert to trends in foreign currencies as well as in world stock and bond markets. Otherwise, seemingly profitable investments in a rising market could lose money if national currency is falling against the dollar. While international mutual funds tend to concentrate only on non-American securities, *global mutual funds* buy both foreign and domestic stocks and bonds.
intestate – a person who dies without a valid will is said to die intestate or in intestacy.
investor – party who puts money at risk; may be an individual or an institutional investor such as a pension fund.
junk bonds – also known as high-yield bonds because they are more risky investments than are investing in traditional investment grade bonds that are credit worthy and safe.
keogh – a tax-deferred pension account designed for employees of unincorporated businesses or for persons who are self-employed (either part- or full-time).
laddering - an investment technique to use when buying certificates of deposits, or CD's, and bonds so that they mature at different times. This should help avoid fixed interest accounts from all maturing when interest rates are low and requiring that they all be reinvested simultaneously.
laissez-faire – the doctrine that interference of government in business and economic affairs should be minimal.
large cap – shorthand for *large capitalization* stocks. Companies whose common stocks or mutual funds are judged as large cap must have a value of $1 billion or more.
launder – to make illegally acquired cash look as if it were acquired legally. The usual practice is to transfer the money through foreign banks, thereby concealing its purpose.
letter of credit (L/C) – instrument or document issued by a bank guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyer's and eliminates the seller's risk. It is used extensively in international trade.
leverage – in investments, this is a means of enhancing return or value without increasing investments. Buying securities on margin is an example of leverage with borrowed money, and extra leverage may be possible if the leverage security is convertible into common stock. Rights, warrants, and option contracts provide leverage, not involving borrowings but offering the prospect of high return for little or no investment. In real estate, one operates with leverage when owners let the rental pay for the investment.
life cycle - most common usage refers to an individual's progression from cradle to grave and the assumption that the choice of appropriate investment changes. Term also applies to the life of a product or of a business, consisting of conception, development, growth, expansion, maturity and decline (or change). Recently, the term has entered into the vocabulary of the family-owned business, referring to generations of management.
limited partnership – organization made up of a , who manages a project, and limited partners, who invest money but have limited liability, are not involved in day-to-day management and usually cannot lose more than their capital contribution. Usually limited partners receive income, capital gains and tax benefits; the general partner

collects fees and a percentage of capital gains and income. Typical limited partnerships are in real estate, oil and gas, and equipment leasing, but they also finance movies, research and development, and other projects.

liquid asset – cash or easily convertible into cash.

liquidity - ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price. Liquidity also refers to the ability to convert to cash quickly.

living trust agreement – trust established between living persons – for instance, between a father and his child. Also called an inter vivos trust.

load fund – Mutual fund that is sold for a sales charge by a brokerage firm or other sales representative. Such funds may be stock, bond or commodity funds, with conservative or aggressive objectives. The stated advantage of a load fund is that the salesperson will explain the fund to the customer and advise him or her when it is appropriate to sell the fund as well as when to buy more shares.

management fee – a charge against investor assets for managing the portfolio of an open- or closed-*end* mutual fund as well as for such services as shareholder relations or administration. The fee, as disclosed in the prospectus, is a fixed percentage of the fund's net asset value, typically between 0.5% and 2% per year. The fee also applies to a managed account. The management fee is deducted automatically from a shareholder's assets once each year.

managed account – an investment account consisting of money that one or more clients entrust to a manager, who decides when and where to invest it. Such an account may be handled by a bank trust department or by an investment advisory firm. Clients are charged a management fee and share in proportion to their participation in any losses and gains.

margin – in general, amount a customer deposits with a broker when borrowing from the broker to buy securities. Under Federal Reserve Board regulation, the initial margin required since 1945 has ranged from 50 to 100 percent of the security's purchase price, in cash or eligible securities, with a minimum of $2000. Thereafter, minimum maintenance requirements are imposed by the National Association of Securities Dealers (NASD) and the New York Stock Exchange, and by the individual brokerage firm, whose requirement is typically higher. In banking, difference between the current market value of collateral backing a loan and the face value of the loan. For instance, if a $100,000 loan is backer by $50,000 in collateral, the margin is $50,000. In futures trading, good faith deposit an investor must put up when buying or selling a contract. If the futures price moves adversely, the investor must put up more money to meet margin requirements.

marginal tax rate – amount of tax imposed on additional income. In the U. S. progressive income tax system, the marginal tax rate increases as income rises. Economists believing in supply-side economics hold that this reduces the incentive to be productive and discourages business investment. In urging that marginal tax rates be cut for individuals and businesses, they argue that the resulting increased work effort and business investment would reduce stagflation.

marketability – the speed and ease with which a particular security may be bought and sold. A stock that has a large number of shares outstanding and is actively traded is highly marketable and also quite liquid. In common use, marketability is interchangeable with liquidity, but liquidity implies the preservation of value when a security is bought or sold.

market capitalization – value of a corporation as determined by the market price of its issued and outstanding common stock. It is calculated by multiplying the number of outstanding shares by the current market price of a share of common stock. .

maturity – reaching the date at which a debt instrument is due and payable. A bond due to mature on January 1, 2010, will return the bondholder's principal and final interest payment when it reaches maturity on that date.

micro cap – shorthand for *micro or very, very small capitalization* stocks. Companies whose common stock or mutual funds are judges as micro cap must have a value of under $50 million.

mid cap – shorthand for *middle capitalization* stocks. Companies whose common stocks or mutual funds are judged as mid cap must have a value of $500 million to $3 billion to $5 billion.

money market – In finance global financial market for short-term borrowing and lending. It provides short-term liquid funding for the global financial system. The money market is where short-term obligations such as Treasury bills, commercial paper and banker's acceptances are bought and sold. The money market consists of financial institutions and dealers in money or credit who wish to either borrow or lend. Participants borrow and lend for short periods of time, typically up to thirteen months. Money market trades in short term financial instruments are called "paper". This contrasts with the capital market for longer-term funding, which is supplied by bonds and equity.

mortgage – a debt instrument by which the borrow (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan. The borrower has use of the property, and the lien is removed when the obligation is fully paid. A mortgage normally involves real estate. For personal property, such as machines, equipment or tools, the lien is called a chattel mortgage.

mortgage-backed certificate - security backed by mortgages. Such certificates are issued by the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Others are guaranteed by the Government National Mortgage Association. Sometimes banks issue certificates backed by conventional mortgages, selling them to large institutional investors. The growth of mortgage-backed certificates and the secondary mortgage market in which they are traded has helped keep mortgage money available for home financing.

mortgage banker – individual or company that originates mortgage loans, sells them to other investors, services the monthly payments, keeps related records, and acts as escrow agent to disperse funds for taxes and insurance. A mortgage banker's income derives from origination and servicing fees, profits on the resale of loans, and the spread between mortgage yields and the interest paid on borrowing while a particular mortgage is held before resale.

municipal bond - a bond or debt issued by a state, city or other local government, or their agencies. Potential issuers of municipal bonds include cities, counties, redevelopment agencies, school districts, publicly owned airports and seaports, and any other governmental entity (or group of governments) below the state level. Interest income received by holders of municipal bonds is often exempt from federal income tax and from the income tax of the state in which they are issued.

mutual fund - a professionally-managed firm of collective investments that pools money from many investors and invests it in stocks, bonds, short term money market instruments and/or securities. An individual known as the portfolio manager trades the fund's underlying securities, realizing capital gains or losses and collects the dividend or interest income. The investment proceeds are then passed along to the individual investors. The value of a share of the mutual fund, known as the net asset value per share (NAV), is calculated daily based on the total value of the fund divided by the number of shares currently issued and outstanding.

nationalization – takeover of a private company's assets or operations by a government.

obligor - one who has an obligation, such as an issuer of bonds, a borrower of money from a bank or another source, or a credit customer of a business supplier or retailer. The obligor (obligator, debtor) is legally bound to pay a debt, including interest, when due.

option – in securities, securities transaction agreement tied to stocks, commodities or stock indexes. Options are traded on many exchanges. A call option gives its buyer the right to buy 100 shares of the underlying security at a fixed price before a specified date in the future- usually three, six or nine months. For this right, the call option buyer pays the call option seller, called the writer, a fee called a premium, which is forfeited if the buyer does not exercise the option before the agreed-upon date. A call buyer therefore speculated that the price of the underlying shares will rise within the specified time period. The opposite of a call option is a put option, which gives its buyer the right to sell a specified number of shares of a stock at a particular price within a specified time period. Put buyers expect the price of the underlying stock to fall.
In practice, most call and put options are rarely exercised. Instead, investors buy and sell options before expiration, trading on the rise and fall of premium prices. Because an option buyer must put up only a small amount of money (the premium) to control a large amount of stock, options trading provides a great deal of leverage and can probe immensely profitable. Options traders can write either covered options, in which they own the underlying security or far riskier naked options, for which they do not own the underlying security. Often, options traders lose many premiums on unsuccessful trades before they make a very profitable.

par – equal to the nominal or face value of a security.

passbook – a book issued by a bank to record deposits, withdrawals and interest earned in a savings account usually known as a passbook savings account. It lists the depositor's name, account number and all transaction made to the account.

passive investing – putting money in an investment deemed passive by the IRS such as a limited partnership, or investing in a mutual fund that replicates a market index such as the Standard & Poor's Index, thus assuring investment performance no worse (or better) than the market as a whole. Much lower management fees apply to such investments.

pass-through security – security, representing pooled debt obligations re-packaged as shares, that passes income from debtors through the intermediary to investors. The most common pass-through is a mortgage-backed certificate, usually government-guaranteed, where homeowners' principal and interest payments pass from the originating bank or savings and loan through a government agency or investment bank to investors, net of service charges.

payback period – in capital budgeting, the length of time needed to recoup the cost of a capital investment.

pension fund – a fund set up by a corporation, labor union, governmental entity or other organization to pay the pension benefits of retired workers.

penny stock – stock that typically sells for less than $1 per share although it may rise to as much as $10 per share after its initial public offering, usually because of heavy promotion...
perks – a fringe benefit offered to an employee in addition to salary – commonly called perks but formally termed a *perquisite*.
personal property –tangible and intangible assets other than real estate.
pin number– acronym for personal identification number. Customers use PIN numbers to identify themselves, such as when performing transactions with a debit card at an automatic teller machine.
plastic bonds – refers to credit cards.
portfolio – combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset by an individual or institutional investor. The purpose of a portfolio is to reduce risk by diversification
preferred stock – a class of capital stock that pays dividends at a specified rate and that has preference over common stock in the payment of dividends and the liquidation of assets. When/If a company dissolves or goes into bankruptcy, preferred stockholders are paid ahead of common stockholders. Of course, bond holders and creditors are first in line when assets are divided.
prenuptial contract – agreement between a future husband and wife that details how the couple's financial affairs are to be handled during the marriage and in the event of a divorce.
prime rate – base rate that banks use in pricing commercial loans to their best and most creditworthy customers. The rate is determined by the Federal Reserve's decision to raise or lower prevailing interest rates for short-term borrowing.
principal - in general, major party to a transaction, acting as either a buyer or a seller. A principal buys and sells for his or her own account and risk; owner of a privately held business. In banking and finance, face amount of a debt instrument or deposit on which interest is either owed or earned; balance of a debt, separate from interest. In investments, basic amount invested, exclusive of earnings.
probate – a judicial process whereby the will of a deceased person is presented to a court and an executor or administrator is appointed to carry out the will's instructions.
program trading –computer-driven buying (buy program) or selling (sell program) of baskets of 15 or more stocks by index arbitrage specialists or institutional traders. "Program" refers to computer programs that constantly monitor stock, futures, and options markets, giving buy and sell signals when opportunities for arbitrage profits occur or when market conditions warrant portfolio accumulation or liquidation transactions. Program trading has been blamed for excessive volatility in the markets, especially on Black Monday in 1987, when portfolio insurance – the since discredited use of index options and futures to hedge stock portfolios – was an important contributing factor.
progressive tax –income tax system in which those with higher incomes pay taxes at a higher rate than those with lower incomes; also called graduated tax. The U. S. income tax system is based on this concept of progressivity.

promissory note – a written promise committing the maker to pay the payee a specified sum of money either on demand or at a fixed or determinable future date, with or without interest. Often simply called a note.

prospectus – a formal written offer to sell securities that sets forth the plan for a proposed business enterprise or the facts concerning an existing one that an investor needs to make an informed decision. A mutual fund prospectus will describe the history, background of managers, fund objectives, a financial statement and other essential data. A prospectus for a public offering must be filed with the Securities and Exchange Commission and given to prospective buyers of the offering. The prospectus contains financial information and a description of a company's business history, officers, operations, pending litigation (if any) and plans (including the use of the proceeds from the issue).

proxy – a person authorized to act speak or vote for, or in place of, another.

prudent-man rule – a standard adopted by some U. S. states (and in Missouri) to guide those with responsibility for investing the money of others. Fiduciaries (executors of wills, trustees, bank trust departments and administrators of estates) must as a prudent man or woman would be expected to act, with discretion and intelligence, seeking reasonable income, preserving capital and in general, avoiding speculative investing.

public offering – offering to the investment public, after registration requirements of the Securities and Exchange Commission have been complied with, of new securities, usually by an investment banker or a syndicate made up of several bankers, at a public offering price agreed upon between the issuer and the investment bankers.

put-call ratio – the ratio of trading volume in put options to the trading volume in call options.

quid pro quo – from the Latin meaning "something for something."

rating – evaluation of securities investment and credit risks by ratings services such as Moody's Investors Service, Standard & Poor's Corporation, Value Line Investment Survey, etc. from AAA (highest quality) through D (lowest quality in default, in arrears or questionable value). So called junk bonds receive a rating of BB and below. Any bonds with ratings of C or lower pay no interest.

real estate – piece of land and all physical property related to it, including houses, fences, landscaping and all rights to the air above and the earth below the property. Assets not directly associated with the land are considered *personal property*.

rebalancing and reallocating – moving money around in ones portfolio in order to maintain diversification and reduce risk. As one gains experience and confidence in managing his/her portfolio of investments, (s)he will realize that a portfolio will begin to become unbalanced with regard to meeting its objectives. The need to rebalance and reallocate occurs when one or more asset classes or market sectors begin to grow at a faster rate than others. The entire portfolio will soon become so imbalanced that too much risk will exist in these fast-growing asset classes. Rebalancing and reallocating is often very difficult to do because it requires one to move money being generated by market sectors or asset classes that are "in favor" and producing large returns out of those areas and into the "out of favor" sectors or classes. Realizing that the market fluctuates with various sectors and classes moving in and out of favor and realizing that diversification is undertaken to smooth the risks will help prompt this very essential movement of assets.

risk – measurable possibility of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Among commonly encountered types of risk are:

~ *actuarial risk*: risk an insurance underwriter covers in exchange for premiums, such as the risk of premature death.

~ *exchange risk*: chance of loss on foreign currency exchange.

~ *inflation risk*: chance that the value of assets or of income will be eroded as inflation shrinks the value of a country's currency.

~ *interest rate risk*: possibility that a fixed-rate debt instrument will decline in value as a result of a rise in interest rates.

~ *inventory risk*: possibility that price changes, obsolescence, or other factors will shrink the value of inventory.

~ *liquidity risk*: possibility that an investor will not be able to buy or sell a commodity or security quickly enough or in sufficient quantities because buying or selling opportunities are limited.

~ *political risk*: possibility of nationalization or other unfavorable government action.

~ *repayment (credit) risk*: chance that a borrower or trade debtor will not repay an obligation as promised.

~ *risk of principal*: chance that invested capital will drop in value.

~ *underwriting risk*: risk taken by an investment banker that a new issue of securities purchased outright will not be bought by the public and/or that the market price will drop during the offering period.

retirement age – the age at which employees no longer work. Although there is no longer any mandatory retirement age, many institutions do impose a retirement age – for the federal government that age is 70; for many corporations the age is 65; however, retirement age is no longer any standard age.

reverse annuity mortgage – a mortgage instrument that allows an elderly person to live off the equity in a fully paid-for house. Such a homeowner would enter into a reverse annuity mortgage agreement with a financial institution, which would guarantee a lifelong fixed monthly income in return for gradually giving up ownership of the house.

revocable trust – an agreement whereby income-producing property is deeded to heirs.

rollover – movement of funds from one investment to another.

sandwich generation – middle-aged working people who feel squeezed by financial pressures of supporting their aging parents, the cost of raising and educating their children and the need to save for their own retirement.

sector - a particular group of stocks, usually found in one industry. Securities analysis often follow a particular sector in the stock market, such as airlines or chemical stocks

securities analyst – an individual, usually employed by a stock brokerage house, bank or investment institution, which performs investment research and examines the financial condition of a company or group of companies in an industry and in the context of the securities markets...

securities and exchange commission (SEC) – federal agency created by the securities exchange act of 1933, formerly carried out by the federal trade commission. The SEC is made up of five commissioners, appointed by the President of the United States on a rotating basis for five-year terms. The chairman is designated by the President and, to insure its independence, no more than three members of the commission may be of the same political party. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against malpractice in the securities markets.

selling short – sale of a security or commodity futures contract not owned by the seller; a technique used to take advantage of an anticipated decline in the price or to protect a profit in a long position. An investor borrows stock certificates for delivery at the time of short sale. If the seller can buy that stock later at a lower price, a profit results; if the price rises; however, a loss results.

signature loan – an unsecured loan requiring only the borrower's signature on a loan application. Also known as a good-faith loan or a character loan.

simple interest – interest calculated only on the original principle amount. A contrasting form of interest to compounded interest.

small cap – shorthand for *small capitalization stocks* or mutual funds holding such stocks. Small cap stocks usually have a market capitalization (number of shares outstanding multiplied by the stock price) of $500 million or less. Less established, small cap stocks are usually more volatile than Blue Chips.

split – increase in a corporation's number of outstanding shares of stock without any change in the shareholders' equity or the aggregate market value at the time of the split. Stocks may "split up" whereby the number of shares a stockholder has increases, i.e. "two for one split" or "split down" (also called a reverse split) where the number of shares decreases.

spread – the difference in yields on securities of the same quality but different maturities.

stagflation – a term coined by economists in the 1970's to describe the previously unprecedented combination of slow economic growth and high unemployment (stagnation) with rising prices (inflation). The principal factor was the fourfold increase in oil prices imposed by OPEC.

standard of living – the degree of prosperity in a nation, as measured by income levels, quality of housing and food, medical care, educational opportunities, transportation, communications and other measures.

stock – ownership of a corporation represented by shares that are a claim on the corporation's earnings and assets. Common stock usually entitles the shareholder to vote in the election of directors and other matters taken up at shareholder meetings or by proxy. Preferred stock generally does not confer voting rights but it has a prior claim on assets and earnings – dividends must be paid on preferred stock before any can be paid on common stock. A corporation can authorize additional classes of stock, each with its own set of contractual rights.

stock exchange – an organized marketplace in which stocks, common stock equivalents, and bonds are traded by members of the exchange, acting both as agents (brokers) and as principals (deals or traders). Such exchanges have a physical location where brokers and dealers meet to execute orders from institutional and individual investors to buy and sell securities. Each exchange sets its own requirements for membership; the New York Stock Exchange has the most stringent requirements.

stock indices and averages – indicators used to measure and report value changes in representative stock groupings. Strictly speaking, an average is simply the arithmetic mean of a group of prices, whereas an index is an average expressed in relation to an earlier established base market value. Among the best known and most widely used are:

~ **AMEX Major Market Index (XMI):** price-weighted (high-priced issues have more influence than low-priced issues) average of 20 blue chip industrial stocks. Designed to closely track the Dow Jones Industrial Average (DJIA) in measuring representative performance in the stocks of major industrial corporations. Produced by the American Stock Exchange (AMEX) but composed of 20 stocks listed on the New York Stock Exchange (NYSE), 15 of which are also components of the DJIA,

~ **AMEX Market Value Index (XAM)**: on September 4, 1973, the XAM replaced the ASE Index, which tracked the performance of American Stock Exchange issues. Not a trading index, the Market Value Index is a capitalization-weighted index (i.e., the impact of a component's market change is proportionate to the overall market value of the issue) introduced at a base level of 100.00 in September 1973 and adjusted to half that level in July 1983. It measures the collective performance of more than 800 issues, representing all major industry groups traded on the AMEX.

~ **Dow Jones Industrial Average (DJIA):** price-weighted average of 30 actively traded blue chip stocks, primarily industrials but including American Express Co., Walt Disney Co., J. P. Morgan and other service-oriented firms. Prepared and published by Dow Jones & Co., it is the oldest and most widely quoted of all the market indicators. The components, which change from time to time, represent between 15% and 20% of the market value of NYSE stocks. The DIJA is calculated by adding the trading prices of the component stocks and using a divisor that is adjusted for stock dividends and splits, and cash equivalent distributions equal to 10% or more of the closing prices of an issue, as well as for substitutions and mergers. The average is quoted in points, not dollars.

~ **Dow Jones Equity Market Index:** a broad-based capitalization weighted (price times the shares outstanding for each company) index (June 30, 1982 = 100) of about 700 stocks traded on the NYSE, the AMEX and NASDAQ, representing approximately 80% of the U. S. equity market. It is the U. S. portion of the Dow Jones World Stock Index.

~ **Dow Jones World Stock Index:** a broad-based capitalization weighted index (December 31, 1991 = 100) tracking more than 2600 companies in a growing list of countries and representing about 80% of the equity capital on stock markets around the globe. Currently, the index includes 25 countries in North America, Europe and the Asia/Pacific regions.

Dow Jones Industry Group and Economic Sector Indices are comprised of companies in the Dow Jones World Stock Index, classified on the basis of their type of business, which then are sorted into more than 100 industry groups and nine broad economic sectors. The indices are computed to measure the movement of stock prices by industry groups and broad economic sectors on a global, regional and national basis. These indices are tracked in real time.

Country indices are calculated in each country's own currency, plus the U. S. dollar, British pound, German mark and Japanese yen. The regional and world indices are calculated in these four global currencies. All indices can be converted to any currency.

~ **NASDAQ-100 Index**: begun in January of 1985, it includes 100 of the largest non-financial companies listed on the NASDAQ Stock Market's National Market. Each security is proportionally represented by its market capitalization in relation to the total market value of the index. In October 1993, all index components had a market value of at least $400 million and were selected on the basis of trading volume, the company's visibility, the continuity of the components in the index and a good mix of industries represented in the SMASDAQ Stock Market. In February 1994, the index value was reduced by half when options on the index began trading on the Chicago Board Options Exchange. The NASDAQ-100 option is a European-style option, and can be exercised only on its expiration date.

~ **New York Stock Exchange Composite Index:** market value-weighted index which relates all NYSE stocks to an aggregate market value as of December 31, 1965, adjusted for capitalization changes. The base value of the index is $50 and point changes are expressed in dollars and cents. NYSE sub-indices include the *NYSE Industrial, NYSE Transportation, NYSE Utility* and *NYSE Financial Composite Indexes.*

~ **Russell Indexes:** market capitalization-weighted indexes published by Frank Russell Company of Tacoma, Washington. The *Russell 300 Index* consists of the largest U. S. stocks in terms of market capitalization. The highest-ranking 1000 comprise the *Russell 1000 Index* and the other 2000, which have market value ranging from $91 million to $672 million, make up the *Russell 2000 Small Stock Index*, a popular measure of the stock price performance of small companies. Seven other indices are built from these three. They are the *Russell 2500 Index, Russell Midcap Index, Russell Top 200 Index, Russell 1000 Value Index, Russell 1000 Growth Index, Russell 2000 Value Index* and *Russell 2000 Growth Index*.

~ **Standard & Poor's Composite Index of 500 Stocks**: market value-weighted index showing the change in the aggregate market value of 500 stocks relative to the base period 1941-1943. Mostly NYSE-listed companies, with some AMEX and NASDAQ Stock Market stocks, it is comprised of 381 industrial stocks, 47 utilities, 56 financials and 16 transportation issues representing about 74% of the market value of all issues traded on the NYSE. Index options are traded on the Chicago .Board of Trade and futures and futures options are traded on the Chicago Mercantile Exchange

~ **Value Line Composite Average**: equally weighted geometric average of approximately 1700 NYSE, AMEX and over-the-counter stocks tracked by the Value Line Investment Survey. The index uses a base value of 100.00 established June 30, 1961, and changes are expressed in index numbers rather than dollars and cents. This index is designed to reflect price changes of typical stocks (industrials, transportation and utilities) and being neither price- nor market value-weighted, it largely succeeds. Futures on the index are traded on the Kansas City Board of Trade and futures options are traded on the Philadelphia Stock Exchange.

~ **Wilshire 5000 Equity Index:** broadest of all the averages and indexes, the Wilshire Index is market value-weighted and represents the value of all U. S. headquartered equities on the NYSE, AMEX and NASDAQ National Market system for which quotes are available, more than 6000 stocks in all. Changes are measured against a base value established December 31, 1980. Options and futures are not traded on the Wilshire Index, which is prepared by Wilshire Associates, Inc., of Santa Monica, California.

Many indices and averages track the performance of stock markets around the world. The major indices include the: All Ordinaries Index; CAC 40 Index; Morgan Stanley Capital International Indices; EAFE Index; Emerging Market Free (EMF) Index; Hang Seng Index; International Market Index; Salomon Brothers World Equity Index.

sunset provision – condition in a law or regulation that specifies an expiration date unless reinstated by legislation.

sunshine laws – state or federal laws that require most meetings of regulatory bodies to be held in public and most of their decisions and records to be disclosed.

supply-side economics – a theory of economics contending that drastic reductions in tax rates will stimulate productive investment by corporations and wealthy individuals to the benefit of the entire society. Sometimes termed "trickle-down" economics.

surrender - Annuities have a penalty charge, called a "surrender charge" that is imposed if withdrawals are made from the annuity before the "surrender period" (of 5 – 10 years that the investor MUST leave funds in the annuity) has expired.

swap – traditionally, an exchange of one security for another to change the maturities of a bond portfolio or the quality of the issues in a stock or bond portfolio, or because investment objectives have shifted. Investors with bond portfolio losses often swap for other higher-yielding bonds to be able to increase the return on their portfolio and realize tax losses.

tax deferred – a term describing an investment whose accumulated earnings are free from taxation until the investor takes possession.

tariff – a federal tax on imports and exports usually imposed either to raise revenue or to protect domestic firms from import competition.

tax audit – an audit by the IRS or state or local tax collecting agency to determine if a taxpayer paid the correct amount of tax.

tax base – total amount of taxable property, assets and income that can be taxed within a specific jurisdiction.

tax efficiency – a consideration that is important in investing. Earnings from a Roth IRA or a municipal bond are tax-free. Qualifying dividends and capital gains (until 2008) are taxed at 15% on the Federal level, rather than at a person's top personal tax rate.

tax evasion – the illegal practice of intentionally evading taxes. Taxpayers who evade their true tax liability may underreport income, overstate deductions and exemptions or participate in fraudulent tax shelters. If the taxpayer is caught, tax evasion is subject to criminal penalties as well as back taxes and interest and civil penalties.

tax exempt – free from tax liability. This status is granted to municipal bonds, which pay interest that is totally free from federal taxes. Certain organizations such as charities, religious organizations, educational institutions and non profit groups also hold tax exempt status, meaning that they do not owe taxes to the federal, state or local governments.

tax-free – a term that applies to those employee benefits paid for a tax exempt entity, such as a school, on behalf of an employee.

tax-sheltered and tax-deferred annuities – investments that permit taxes to be paid after retirement instead of for the year in which the invested money was earned. The idea here is that taxes are lower after one retires (. . . but. . . see "Myths about retirement.).

testamentary trust – a trust created by a will, as distinguished from an inter vivos trust created during the lifetime of the grantor.

testator – a man or woman who has left a valid will at his/her death.

tick – upward or downward price movement in a security's trade.

ticker symbol – letters that identify a security for trading purposes.

time deposit – a savings account or certificate of deposit (CD) held in a financial institution for a fixed term or with the understanding that the depositor can withdraw only by giving notice.

transfer – in banking, transfer refers to the movement of funds from one account to another, such as from a passbook account to a checking account. Securities and mutual funds that transfer ownership of property from one party to another typically use the services of a transfer agent.

traveler's check – a check issued by a financial institution such as American Express, Visa or Mastercard that permits travelers to carry travel funds in a more convenient way than cash.

treasuries – negotiable debt obligations, bills, bonds or notes, of the U. S. government, secured by its full faith and credit and issued at various schedules and maturities.

treasury inflation protected securities (TIPS) - Along with treasury bills, treasury notes and treasury bonds, *treasury inflation protected securities* (TIPS) is one of the forms of treasury securities issued by the U. S. Government. As the name implies, investors are protected against losing value in their principal investment if the country suffers from inflation.

trust - in business, a type of investment company. In law, a fiduciary relationship in which a person called a trustee holds title to property for the benefit of another, called a beneficiary. The agreement that establishes the trust contains its provisions and sets forth the powers of the trustee. The trust creator is the creator, settlor, grantor or donor.

umbrella personal liability policy – a liability insurance policy providing excess coverage beyond regular liability policies.

valuation – placing a value or worth on an asset.

value-added tax (VAT) - consumption tax levied on the value added to a product at each stage of its manufacturing cycle as well as at the time of purchase by the ultimate consumer. The value-added tax is a fixture in European countries and a major source of revenue for the European Union (EU). Advocates of a value-added tax for the U. S. contend that it would be the most efficient method of raising revenue and the size of the receipts would permit a reduction in income tax rates. Opponents argue that in its pure form, it would be the equivalent of a national sales tax and therefore unfair and regressive, putting the greatest burden on those who can least afford it.

venture capital – important source of financing for start-up companies or others embarking on new or turnaround ventures that entail some investment risk but offer the potential for above average future profits; also called risk capital.

will – a document, also called a testament, that, when signed and witnessed, gives legal effect to the wishes of a person, called a testator, with respect to disposal of property upon death.

X or XD; XR; XW – symbols used in newspapers to signify that a stock is trading without dividend; without rights attached and without warrants attached respectively.

yield – return on an investor's capital investment.

zombies – companies that continue to operate even though they are insolvent and bankrupt.

Banking, Financial & Investment Abbreviations & Acronyms

ABS – *Automated Bond System*
ACES – *Advanced Computerized Execution Systems*
ACCESS – after hours electronics trading system
AMEX – *American Stock Exchange*
AMPS – *Auction Market Preferred Stock*
APS – *Auction Preferred Stock*
ASAP- as soon as possible
ASPIRIN – *Australian Stock Price Riskless Indexed Notes*
ATP – arbitrage trading program
BAN - bond anticipation note
BIF – *Bank Insurance Fund*
Bolsa Mexicana de Valores – *the Mexican Stock Exchange*
BOVESPA – *Bolsa de Valores de Sao Paulo, the Sao Paulo Stock Exchange*
BTCI – *Bankers Trust Commodity Index*
CAMPS – Cumulative Auction Market Preferred Stocks
CAPM – Capital Asset Pricing Model
CAPS – convertible adjustable preferred stock
CARDS – Certificates for Amortizing Revolving Debts
CARS – Certificate for Automobile Receivables
CATS – certificate of accrual on treasury securities
CBO – collateralized bond obligation
CEO – Chief Executive Officer
CFO – Chief Financial Officer
CIF – Corporate Income Fund
CIO – Chief Investment Officer
CMO – collateralized mortgage obligation
COFI – Cost of Fund Index
COLA – cost of living adjustment
COLTS – Continuously Offered Longer-term Securities
COMEX – A division of the New York Mercantile Exchange, formerly known as the *Commodity Exchange*
COO – Chief Operating Officer
CRAT – Charitable Remainder Annuity Trust
CRT – Charitable Remainder Trust
CRUT – Charitable Remainder Unitrust
CPI – Consumer Price Index
DEWKS – dual income with kid
DENKS – dual employed no kids
DIFF – short for Euro-rate differentials
DINKS – dual income no kids
DOT system – Designated Order Turnaround
DJIA – *Dow Jones Industrial Average*
DRIP – Dividend Reinvestment Plan
EAFE – *Europe and Australasis, Far East Equity*

ECM – Emerging Company Marketplace
ECU – European Currency Unit
EEC – *European Economic Community*
ERISA – *Employee Retirement Income Security Act*
EPS – earnings per share
ERM – exchange rate mechanism
ERTA – *Economic Recovery Tax Act* (of 1981)
ESOP – Employee Stock Ownership Plan
EXIMBANK – Export-Import Bank
FANNIE MAE *or* FNMA - *Federal National Mortgage Association*
FARMER MAC - *Federal Agricultural Mortgage Corporation*
FASB – *Financial Accounting Standards Board*
FDIC - *Federal Deposit Insurance Corporation*
FHA – *Federal Housing Administration*
FHFB - *Federal Housing Finance Board*
FICA – *Federal Insurance Contributions Act*
FICO – *Financing Corporation*
FIFO – first in, first out
FIRREA – *Financial Institutions Reform, Recovery and Enforcement Act (of 1989)*
FINEX – the financial futures and options division of the *New York Cotton Exchange*
FOB – free on board
FOCUS – Financial and Operational Combined Uniform Single report
FOMC – *Federal Open-Market Committee*
FOOTSIE *or* FT-SE - *Financial Times Stock Exchange* in London
FRB – *Federal Reserve Board*
FREDDIE MAC *or* FHLMC – *Federal Home Loan Mortgage Corporation*
FSLIC – *Federal Savings and Loan Insurance Corporation*
FTC – *Federal Trade Commission*
FUTA – *Federal Unemployment Tax Act*
FVO – for valuation only
FY – fiscal year
FYI – for your information
GAAP – generally accepted accounting practices
GATT – *General Agreement on Tariffs and Trade*
GEM – growing equity mortgage
GIC – guaranteed investment contract
GDP – gross domestic product
GNP – gross national product
GPM - graduated payment mortgage
GRIP – grantor retained income trust
GSCI – *Goldman Sachs Commodity Index*
GULP – group universal life policy
HIBOR – Hong Kong Interbank Offer Rate
HUD – *Housing and Urban Development* (a division of the U. S. Department of Health, And Human Services)
ICI – Investable Commodity Index

IMF – *International Monetary Fund*
IMM – *International Monetary Market*
IPE – *International Petroleum Exchange*
IRA – individual retirement account
IRS – *Internal Revenue Service*
ISE – *International Stock Exchange of the U. K. and the Republic of Ireland*
JPMCI – *J. P. Morgan Commodity Index*
KCBT – *Kansas City board of Trade*
KR-CRB – *Knight-Ridder Commodity Research Bureau Index*
LCE – *London Commodity Exchange*
LEAPS – Long-term Equity AnticiPation Securities
LESOP – Leveraged Employee Stock Ownership Plan
LIFFE – *London International Financial Futures and Options Exchange*
LIBOR – London Interbank Offered Rate
LIFO – last in, first out
LME – *London Metal Exchange*
LTV – loan-to-value ratio
MA BELL – nickname for *AT&T Corporation*
MAITF SA – *Marche a Terme International de France***,** France's futures exchange
MEFF RENTA FIJA - Spain's derivatives exchange in Barcelona
MEFF RENTA Variable – Spain's stock index and equity derivatives market, located in Madrid
MERC – nickname for the *Chicago Mercantile Exchange*
MIF – *Mercato Italianto Futures*, the Italian futures market, based in Rome**.**
MIBOR – Madrid Interbank Offered Rate
MOB spread – difference in yield between a tax-free municipal bond and a Treasury bond with the same maturity**.**
Montreal Exchange/Bourse de Montreal – Canada's oldest stock exchange
MUD – municipal utility district
NAIC – *National Association of Investors Corporation*
NASDAQ – *National Association of Securities Dealers Automated Quotations* system
NASD – *National Association of Securities Dealers*
NCUA – *National Credit Union Administration*
NEMS – *National Exchange Market System*
NFCC – *National Foundation for Consumer Credit*
NICS – newly industrialized countries
NIKKEI – the Tokyo Stock Exchange (of Japan)
NOB spread – notes over bonds spread
NOL – net operating loss
NPV – net present value
NSCC – *National Securities Clearing Corporation*
NYCE - *New York Cotton Exchange*
NYFE –*New York Futures Exchange*
NYMEX – *New York Mercantile Exchange*
NYSE – *New York Stock Exchange*
NZSE – *New Zealand Stock Exchange*

OCC – *Options Clearing Corporation*
OEX – pronounced as three letters, Wall Street shorthand for the *Standard & Poor's 100 stock index*
OID – original issue discount
OMB – *Office of Management and Budget (agency within the office of the President*
OPEC – *Organization of Petroleum Exporting Countries*
OPM – other people's money
OSE – *Oslo Stock Exchange (*of Norway)
OTC – over the counter
OTS – *Office of Thrift Supervision* (within the Treasury Department)
OW – offer wanted
PAC bond – planned amortization class bond
PAL – passive activity loss
P & I – principal and interest
P & L statement – profit and loss statement
Paris Bourse – national stock market of France
PBGC – *Pension Benefit Guaranty Corporation*
PC –Participation Certificate
P/E – price/earnings ratio (or the price of a stock divided by its earnings per share***)***
PERCS – preferred equity-redemption cumulative stock
PERLS – principal exchange-rate-linked securities
PIG – passive income generator
PIK securities – payment in kind (dividends offered in additional "in kind" bonds/securities)
PITI – principal, interest, taxes and insurance
PLC – public liability company
PMI – private mortgage insurance
PMV – private market value
PPI – producer price index (measure of change in wholesale prices)
RAM – reverse annuity mortgage
RAN – revenue anticipation note
R & D – research and development
REFCORP – *Resolution Funding Corporation*
REITS – Real Estate Investment Trust
REMIC –Real Estate Mortgage Investment Conduit
RFP – Registered Financial Planner
REPO; RP – repurchase agreement
RICCO – *Racketeer Influenced and Corrupt Organization Act*
RRSP – Registered Retirement Savings Plan
RTC – *Resolution Trust Corporation*
SAIF – *Savings Association Insurance Fund*
SALLIE MAE – *Student Loan Marketing Association*
SAX – *Stockholm Automatic Exchange*, the electronic trading system for *Stockholm Stock Exchange* (of Sweden)
SBA – *Small Business Administration*
SEP – Simplified Employee Pension Plan

SES – *Stock Exchange of Singapore*
SET – *Securities Exchange of Thailand* (Thailand's only, based in Bangkok)
SFE – *Sydney Futures Exchange* (of Australia)
SIA – *Securities Industry Association*
SIAC – *Securities Industry Automation Corporation*
SIC – Standard Industrial Classification System
SICA – *Securities Industry Committee on Arbitration*
SIPC – *Securities Investor Protection Corporation*
SLMA – *Student Loan Marketing Association*
SMA – Special Miscellaneous Account
SOES – *Small Order Entry (or Execution) System* (used by *NASDAQ*)
SOFFEX – *Swiss Options and Financial Futures Exchange*
SOX – fixed interest securities electronic trading system for the *Stockholm Stock Exchange*
SPDA –Single-Premium Deferred Annuity
SPDR – *Standard & Poor's Depository Receipt* (called "Spiders")
SPINS – *Standard & Poor's 500 Index Subordinated Notes*
SRO – Self-Regulatory Organization
STAGS – Sterling Transferable Accruing Government Securities British version of U. S. STRIPS
Street – short for *Wall Street*
TAB – tax anticipation bill (a U. S. Treasury issue)
TAC bonds – targeted amortization class bonds
TBE – Tenancy by the Entity
TEFRA – *Tax Equity and Fiscal Responsibility Act* (of 1982)
Tel Aviv Stock Exchange – the only stock exchange in Israel
TIC – Tenancy in Common
TIGER – Treasury Investors Growth Receipt
TOPIX – *Tokyo Stock Price Index*
TSE – *Toronto Stock Exchange*
UMGA – *Uniform Gift to Minors Act*
UTMA – *Uniform Trust for Minors Act*
VA mortgage – *Veteran's Administration* Mortgage
VAT – *Value Added Tax*
VCT – *Vancouver Computerized Trading*
VELDA SUE – *Venture Enhancement & Loan Development Administration for Smaller Undercapitalized Enterprises*
VRM – Variable Rate Mortgage
VSE – *Vancouver Stock Exchange* (of Canada)
VSE – *Vienna Stock Exchange*; includes the *ATX – Austrian Traded Index*
X *or* XD; XR; XW – without dividends, without rights and without warrants
YTD – year-to-date
Zurich Stock Exchange - (largest stock exchange in Switzerland)

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Free Materials

Interested individuals wishing to learn more about investing and retirement may find the following materials from the specified, respective locations:

- Consumer Fraud
- Life Choices (End of Life Issues)
- Senior Citizen Handbook

from: Attorney General's Office of Missouri
P O Box 899
Jefferson City, MO 65102
Ph (573) 751-3321

- Probate Law Resource Guide
- Durable Power of Attorney for Health Care & Health Care Directive

from: Missouri Bar Association
326 Monroe Street
Jefferson City, MO 65201
Ph (573) 635-4128

Other good sources of information about retirement planning are:

The Public School Retirement System and the Public Education Employees Retirement Systems of Missouri
(Street Address) 3210 W. Truman Boulevard
Jefferson City, MO 65109
(Mailing Address) P O Box 268
Jefferson City, MO 65102
Phone: (800)392-6848
FAX: (573) 634 – 7934
Web site: http://www.psrsmo.org
Email: member_services@psrsmo.org

AARP and NRTA, AARP's Educator Community
Member Contact Center member@aarp.org
or 1-800-687-2277 (TTY 877-434-7598

Publications available at many banks and savings institutions

Notes

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www.morta.org

MRTA – The Professional Association of Education Retirees!

Missouri Retired Teachers Association and Public School Personnel

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