

Invest in your future

GLOSSARY OF TERMS

Average Annual Return

The rate of return on investments averaged over a specific period of time (e.g., the last 20 years). It is determined by adding together the rates of return for each year and dividing by the number of years in the calculation.

Asset

An asset is anything that is owned by an individual. With respect to saving and investing, assets are generally categorized as liquid (cash) assets and capital (investment) assets.

Banks

Corporations chartered by state or federal government to offer numerous financial services such as checking and savings accounts, loans, and safe deposit boxes. The Federal Deposit Insurance Corporation (FDIC) insures accounts in federally chartered banks.

Budget

A financial plan that summarizes future income and expenditures over a period of time

Capital Gain

A positive difference between an asset's price when bought and its price when or if sold; the opposite of capital loss

Capital Loss

A negative difference between an asset's price when bought and its price when or if sold; the opposite of capital gain.

Commission

A fee to a third party for assisting a business transaction, such as buying or selling an asset.

Compensation

The total wage or salary and benefits that an employee receives

Compound Interest

Interest credited daily, monthly, quarterly, semi-annually, or annually on both principal and previously credited interest.

Consumer

A person who buys and/or uses a product

Credit Laws

Fair Credit Reporting Act (1971) - Federal law that covers the reporting of debt repayment information

It establishes when a credit reporting agency may provide a report to someone; states that obsolete information must be taken off (7 or 10 years); gives consumers the right to know what is in their credit report; requires that both a credit bureau and information provider (e.g., department store) have an obligation to correct incorrect information; gives consumers the right to dispute inaccurate information and

add a 100-word statement to their report to explain accurate negative information; and gives consumers the right to know what credit bureau provided a report when they are turned down for credit.

Fair Credit Billing Act (1975) - Federal law that covers credit card billing problems

It applies to all open-end credit accounts (e.g., credit cards, overdraft checking) stating that consumers should send a written billing error notice to the creditor within 60 days (after receipt of first bill containing an error); creditor must acknowledge in 30 days; creditor must investigate; and creditor may not damage a consumer's credit rating while a dispute is pending.

Fair Debt Collection Practices Act (1978) - Federal law that prohibits debt collectors from engaging in unfair, deceptive, or abusive practices when collecting debts.

Collectors must send a written notice telling the amount owed and name of the creditor; collector may not contact consumer if he or she disputes in writing within 30 days (unless collector furnishes proof of the debt); collectors must identify themselves on the phone and can call only between 8 am and 9 pm unless a consumer agrees to another time; and collectors cannot call consumers at work if they are told not to.

Equal Credit Opportunity Act (1975) - Federal law that ensures that consumers are given an equal chance to receive credit

It prohibits discrimination on the basis of gender, race, marital status, religion, national origin, age, or receipt of public assistance. Lenders cannot ask about your plans for having children or refuse to consider consistently received alimony or child support payments as income. If you are denied credit, you have a legal right to know why.

Truth in Lending Act (1969) - Federal law that mandates disclosure of information about the cost of credit

Both the finance charge (i.e., all charges to borrow money, including interest) and the annual percentage rate or APR (i.e., the percentage cost of credit on a yearly basis) must be displayed prominently on forms and statements used by creditors. The law provides criminal penalties for willful violators, as well as civil remedies. It also protects you against unauthorized use of your credit card. If it is lost or stolen, the maximum amount you have to pay is \$50.

Fair Credit and Charge Card Disclosure Act (1989) - A part of the Truth in Lending Act

It mandates a box on credit card applications that describes key features and costs (i.e., APR, grace period for purchases, minimum finance charge, balance calculation method, annual fees, transaction fees for cash advances, and penalty fees such as over the limit fees and late payment fees).

Credit Unions

Not-for-profit cooperatives of members with some type of common bond (e.g., employer) that provide a wide array of financial services, often at a lower cost than banks

Deflation

A broad, overall drop in the price of goods and services; the opposite of the more common inflation

Disposable Income

Income remaining after income and payroll taxes are deducted from gross pay; income available to spend or save

Diversification

The process of spreading assets among different investments to reduce the risk of a decline in value of an investor's total portfolio from a decline in any one investment

Dividend

A payment to shareholders that a company's board of directors approves from earnings

Dollar-Cost Averaging

Investing regular sums of money (e.g., \$50) at regular time intervals (e.g., quarterly) regardless of whether security prices are moving up or down

Earned Income

Payment received for work, such as wages, salaries, commissions, and tips.

Employee Benefit

Something of value that an employee receives in addition to a wage or salary

Examples include health insurance, life insurance, discounted childcare, and subsidized meals at the company cafeteria.

Employer-Sponsored Retirement Savings Program

Tax-deferred savings plans offered by employers that provide a federal tax deduction, tax-deferral of contributions and earnings, and, in some cases, employer matching. They include 401(k) plans for corporate employees, 403(b) plans for employees of schools and non-profit organizations, and Section 457 plans for state and local government employees.

Employer-Sponsored Savings Plan

A government-approved program through which an employer can assist workers in building their personal retirement funds

Entrepreneur

A person who starts a business

Expense

The cost of a good or service

FICA

Federal Insurance Contributions Act, the legislation that funds Social Security.

Financial Goals

Short-, intermediate-, and long-term goals that require money and guide a person's future plans and savings decisions

Financial Plan

A plan of action that allows a person to meet not only the immediate needs but also the long-term goals

Financial Resources

Financial assets that can be accessed when necessary

Fraud

A seller's intentional deception of a buyer, which is illegal

Government transfer payments

Payments by governments, such as social security, veterans benefits, and welfare, to people who do not supply current goods, services, or labor in exchange for these payments.

Grace Period

A time period during which a borrower can pay the full balance of credit due and not incur any finance charges.

Income

Earnings from work or investment (See compensation)

Inflation

A broad, overall rise in the price of goods and services; the opposite of the less common deflation

Interest

Money paid to savers and investors by financial institutions, government, or corporations for the use of their money (example: 5% interest on a certificate of deposit or 6% interest on a bond)

Investing

The process of setting money aside to increase wealth over time and accumulate funds for long-term financial goals such as retirement

Investors

People investing in securities, such as stock and bonds, to achieve long-term financial goals

Liquidity

The quality of an asset that permits it to be converted quickly into cash without loss of value

Loss

The negative difference between total revenue from a business or investment minus total expense

Medicare

A federal government program of transfer payments for certain health care expenses for citizens 65 or older. The Social Security Administration manages the program.

Mutual Funds

Investment companies that pool money from shareholders and invest in a variety of securities, including stocks, bonds, and short-term money market assets

Needs

Those economic goods and services that are considered basic, such as food, clothing, and shelter

Opportunity Cost

The opportunity cost of a choice is the value of the best alternative given up

Payroll Deduction

An amount subtracted from a paycheck as the government requires or the employee requests. Mandatory deductions include various taxes. Voluntary deductions include loan payments or deposits into saving accounts.

Principal

The original amount of money invested, excluding any interest or dividends (e.g., \$1,000 to purchase a Treasury bill).

Profit

The positive difference between total revenue from a business or investment minus total expense

Prospectus

An official document that contains information required by the Securities & Exchange Commission to describe a mutual fund

Purchasing Power

A measurement of the relative value of money in terms of the quality and quantity of goods and services it can buy. Inflation decreases purchasing power; deflation increases it.

Rate of Return

Also called the "yield," this is the return on an investment expressed as a percentage of its cost (e.g., \$3 annual return divided by \$24 price per share = .125 or a 12.5% rate of return).

Rent

Periodic fee for the use of property

Risk

Exposure to loss of investment capital due to a variety of causes such as business failure, stock market volatility, and interest rate changes - in business, the likelihood of loss or reduced profit

Risk Management

Procedures to minimize the adverse effect of a possible financial loss by: 1) identifying potential sources of loss; 2) measuring the financial consequences of a loss occurring; and 3) using controls to minimize actual losses or their financial consequences.

Rule of 72

A quick way to calculate how long it will take to double a sum of money -divide 72 by the expected interest rate to determine the number of years (example 72 divided by 8% = 9 years)

Salary Payment for work usually calculated in periods of a week or longer and usually tied to the completion of specific duties over a minimum but not maximum number of hours. (See wage)

Savings

The process of setting aside money until a future date instead of spending it today with the goal of securing funds for emergencies, short-term goals, and investments

Savings Accounts

Accounts at financial institutions that allow regular deposits and withdrawals varying among providers with the minimum required deposit, fees charged, and interest rate paid

Savings Bond

A bond is a certificate representing a debt. A U.S. Savings Bond is a loan to the government. The government agrees to repay the amount borrowed, with interest, to the bondholder. Two types of savings bonds are Series EE and inflation-adjusted I bonds. Savings bonds are often purchased through payroll deduction or at financial institutions in denominations of \$50 to \$10,000.

Savings & Loan Associations (S&Ls)

Financial institutions that provide loans and interest-bearing accounts – federally chartered S&L accounts are federally insured.

Simple Interest

Interest credited daily, monthly, quarterly, semi-annually, or annually on principal only, not previously credited interest.

Social Security

A federal government program of transfer payments for retirement, disability, or the loss of income from a parent or guardian. Funds come from a tax on income, a payroll deduction labeled "FICA."

Take-Home Pay

Total wage or salary (plus bonuses) minus payroll deductions

Tax

A government fee on business and individual income, activities, or products

Tax Credit

An amount that a taxpayer who meets certain criteria can subtract from tax owed. Examples include a credit for earned income below a certain limit and for qualified post-secondary school expenses. (See tax deduction, tax exemption.)

Tax Deduction

An expense that a taxpayer can subtract from taxable income - examples include deductions for home mortgage interest and for charitable gifts. (See tax credit, tax exemption)

Tax-Deferred

Investments where taxes due on the amount invested and/or its earnings are postponed until funds are withdrawn, usually at retirement.

Tax-Exempt (tax-free)

Investments (e.g., municipal bonds) whose earnings are free from tax liability

Tax Exemption

An amount that a taxpayer who meets certain criteria can subtract from taxable income - examples include exemptions for each dependent or for life insurance proceeds. (See tax credit, tax deduction)

Taxable Income

Income subject to tax; total income adjusted for deductions, exemptions, and credits.

Time Value of Money

Comparison of a lump sum of money, or a series of equal payments, between two different time periods (e.g., present and future), assuming a specified interest rate and time period. (Reference: The Time Value of Money by Clayton and Spivey.)

Tip

An amount paid beyond what's required, usually to express satisfaction with service quality; also known as a gratuity.

Transfer Payments

(See government transfer payments.)

Unearned Income

Money received for which no exchange was made, such as a gift.

Wage

Payment for work, usually as calculated in periods of an hour rather than longer (See salary)

Wants

Desires for economic goods or services, not necessarily accompanied by the power to satisfy them.

Wealth

Accumulated assets such as money and/or possessions, often as a result of saving and investing