



RETIREMENT PLANNING

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INTRODUCTION

fig. 1

12 HABITS Of Financially Healthy People



fig. 2

THE 5 USES OF MONEY



CHAPTER 1

Key Retirement Accounts: It’s Never Too Early to Start

fig. 3

YEARS OF SERVICE	GRADED VESTING	CLIFF VESTING
1	0%	0%
2	20%	0%
3	40%	100%
4	60%	100%
5	80%	100%
6	100%	100%

When employer contributions come by way of profit share and vesting periods are used, either graded or cliff vesting may be applied.

fig. 4

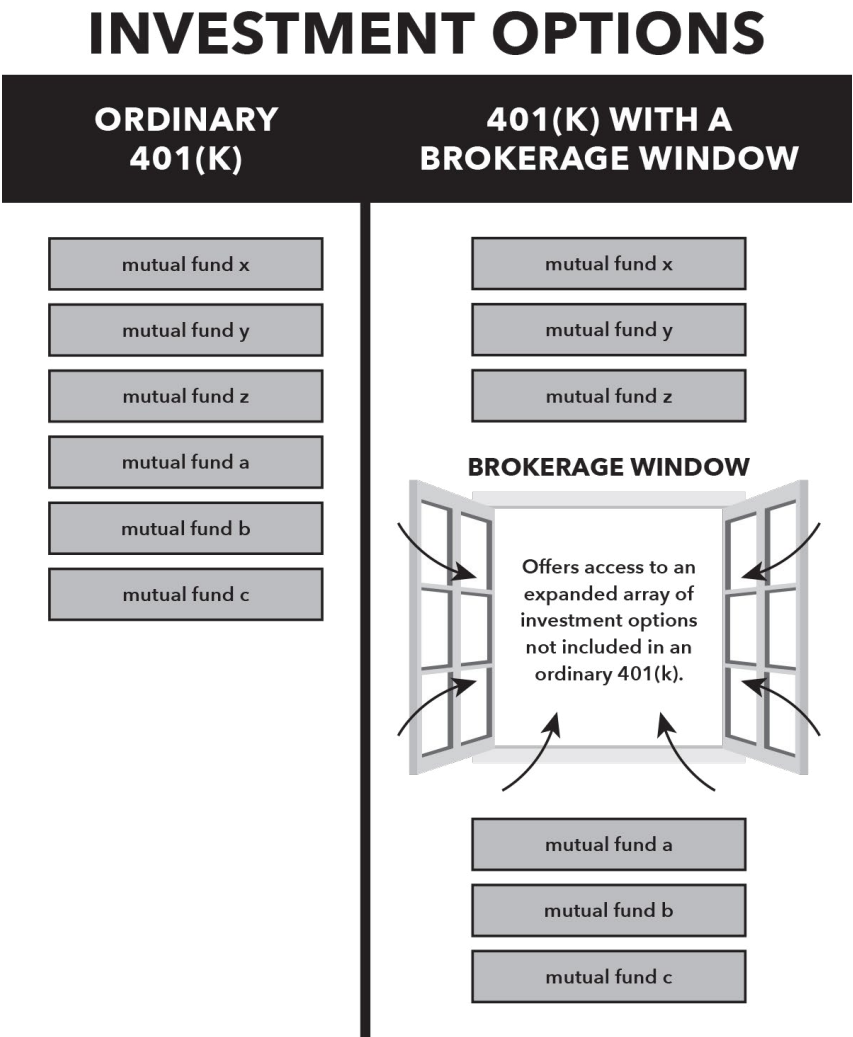

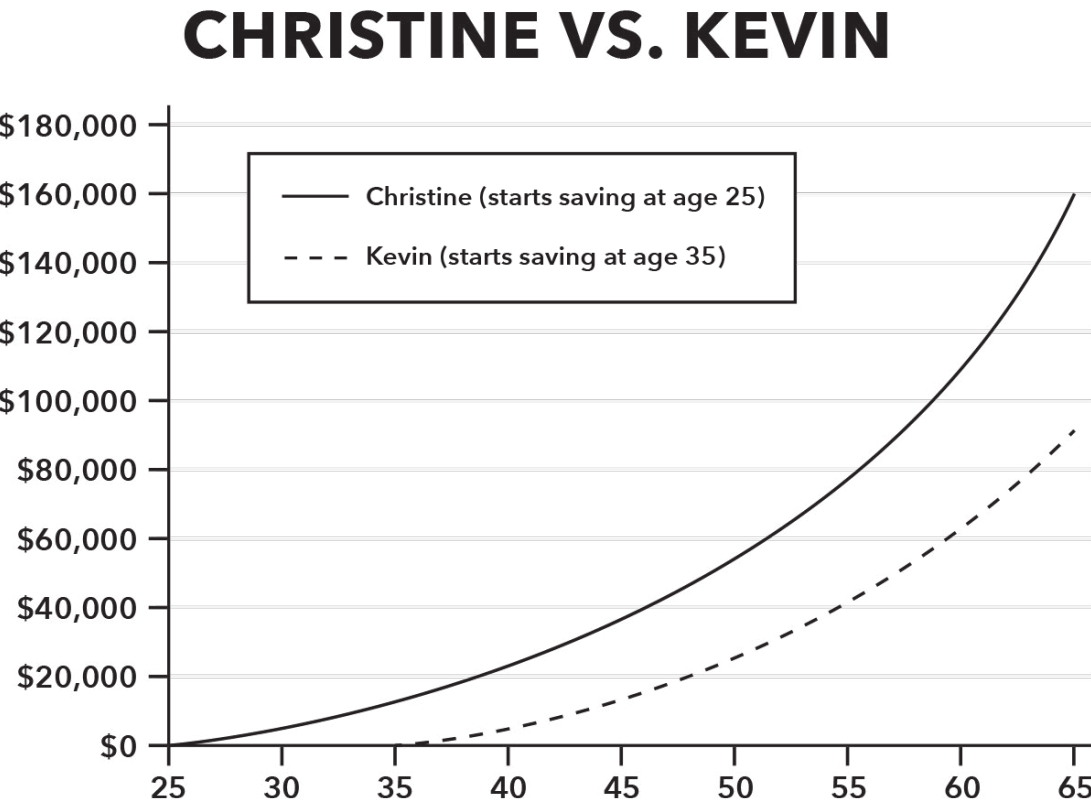


fig. 5



EARNED INCOME	
INCLUDES	EXCLUDES
<ul style="list-style-type: none">• Wages• Salaries• Tips• Bonuses• Commissions• Money earned through self-employment	<ul style="list-style-type: none">• Rental property• Alimony• Child support• Social Security• Unemployment benefits• Interest and dividends

fig. 6



CHAPTER 2

Investment Strategies

fig. 7

THE INCONSISTENCY OF COLAs

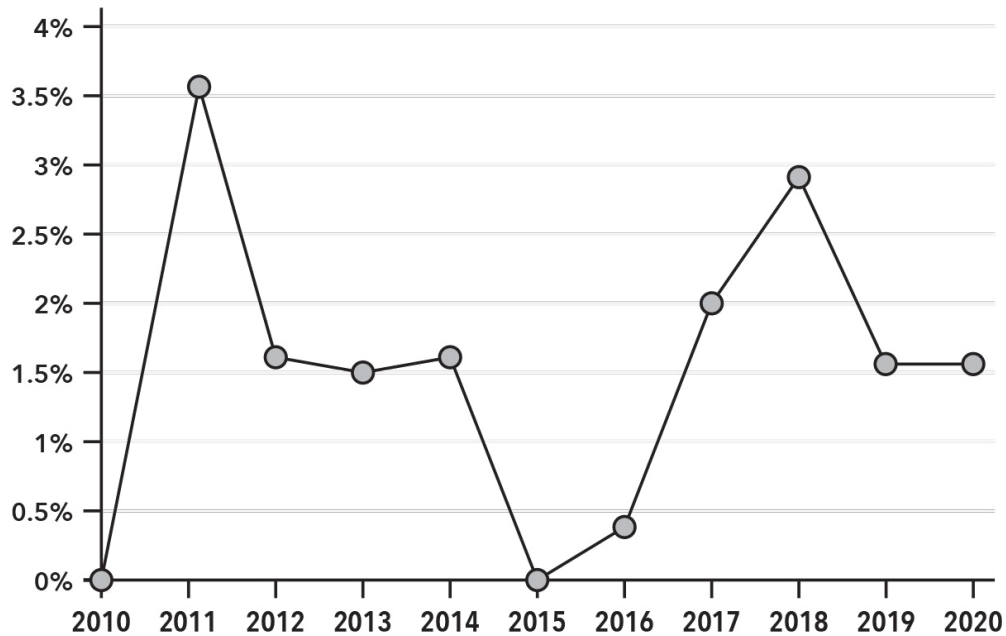


fig. 8

TALK THE TALK

Term of the Treasury Security	Referred to as
≤ 1 year	Treasury bill or T-bill
2–10 years	Treasury note or T-note
> 10 years	Treasury bond or T-bond

Treasury securities are either "bonds," "bills," or "notes"

They are issued for 1, 3, or 6 month terms and 1, 2, 3, 5, 10, 20, or 30 year terms

Collectively, Treasury securities are often referred to simply as "Treasuries"

fig. 9

MOODY'S		S&P		FITCH			
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term		
Aaa	P-1	AAA	A-1+	AAA	A-1+	PRIME	INVESTMENT-GRADE
Aa1		AA+		AA+		HIGH GRADE	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+	A-1	A+	A-1	UPPER MEDIUM GRADE	
A2		A		A			
A3	P-2	A-	A-2	A-	A-2	LOWER MEDIUM GRADE	
Baa1		BBB+		BBB+			
Baa2	P-3	BBB	A-3	BBB	A-3		
Baa3		BBB-		BBB-			
Ba1	Not Prime	BB+	B	BB+	B	NON-INVESTMENT GRADE/ SPECULATIVE	HIGH-YIELD/JUNK
Ba2		BB		BB		HIGHLY SPECULATIVE	
Ba3		BB-		BB-			
B1		B+		B+			
B2		B		B			
B3		B-		B-			
Caa		CCC+	C	CCC	C	SUBSTANTIAL RISKS	
Ca		CC				EXTREMELY SPECULATIVE	
C		CC-				IN DEFAULT (with little prospect for recovery)	
/		D	/	DDD	/	IN DEFAULT	
/				DD			
/				D			

Bonds are graded by ratings agencies to determine the risk of default.
The higher the letter, the better the quality.

fig. 10

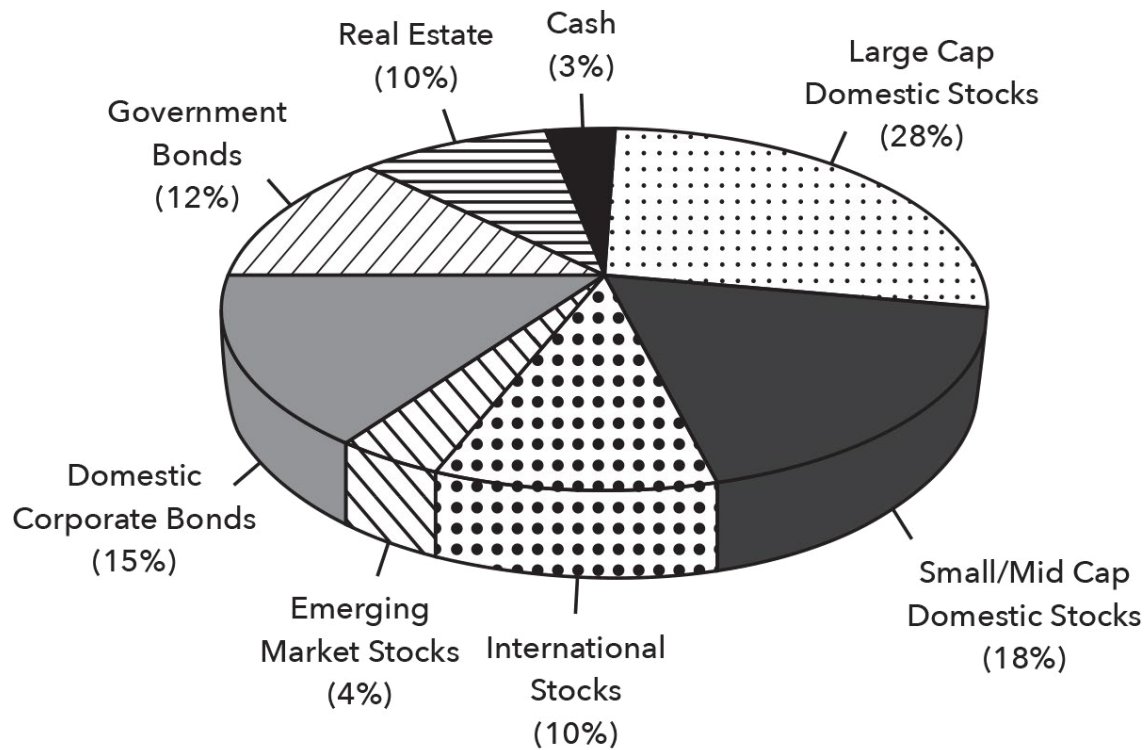


fig. 11

$$ER = \frac{\text{Total Fund Costs}}{\text{Total Fund Assets}}$$

fig. 12



CHAPTER 3

Insurance

fig. 13

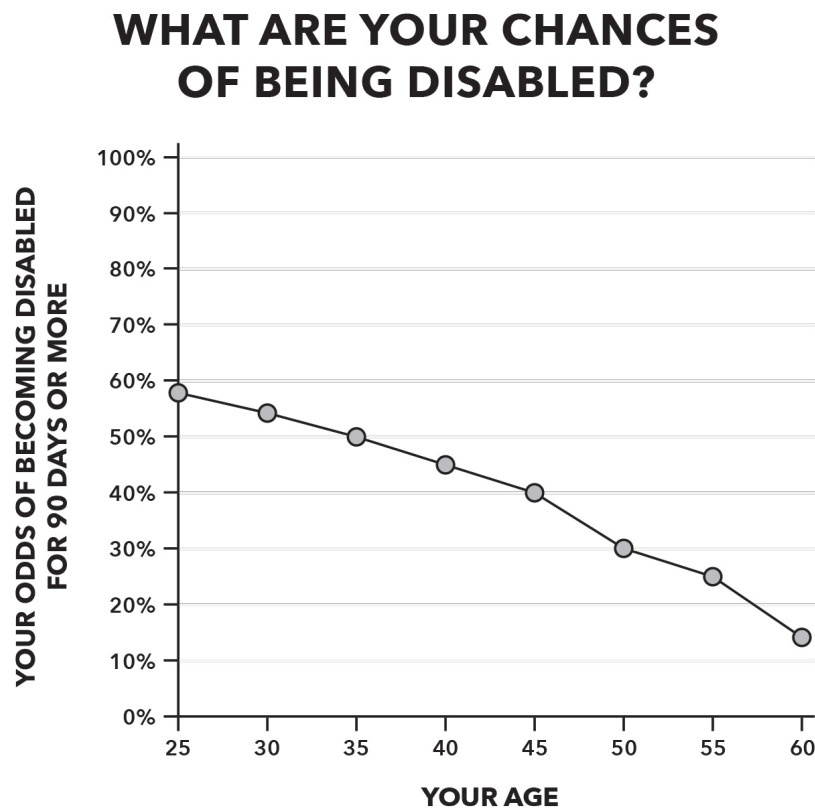


fig. 14

	SHORT-TERM INSURANCE	LONG-TERM INSURANCE
How much does it cover?	Up to 100% of your salary, depending on the plan	Usually between 50% and 60% of your salary
How long does it last?	Usually 3–6 months, but depends on the policy; it can last up to one year	At least one year or longer if your disability continues
How much does it cost?	1–3% of your yearly income	1–3% percent of your yearly income
How soon would you get your first payout?	Usually two weeks from when the doctor confirms you have a disability	The month following the end of your waiting period

Differences between short-term and long-term disability insurance in a group plan

fig. 15

D Existing **DEBTS**

+ **I** Annual **INCOME**

+ **M** Remaining **MORTGAGE** Balance

+ **E** Estimated Future **EDUCATION** Costs

Multiplied by the number of years dependents will live off of it

= YOUR BASE NUMBER

CHAPTER 4

Understanding Your Retirement Needs

fig. 16

AVERAGE ANNUAL HOUSEHOLD INCOME AND EXPENDITURES BY AGE GROUP

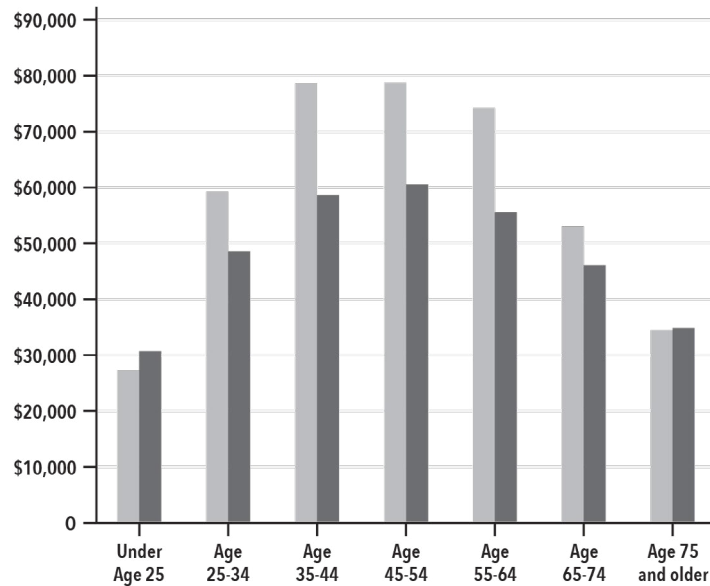
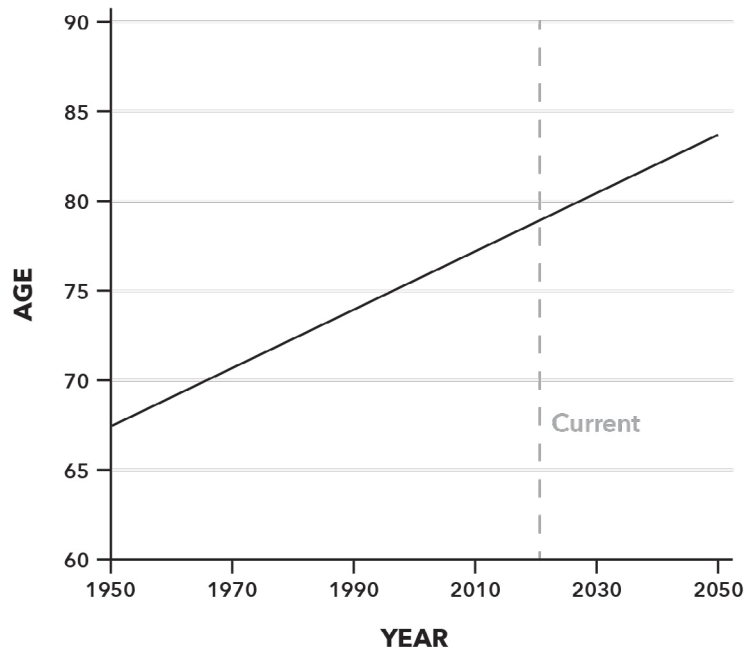


fig. 17

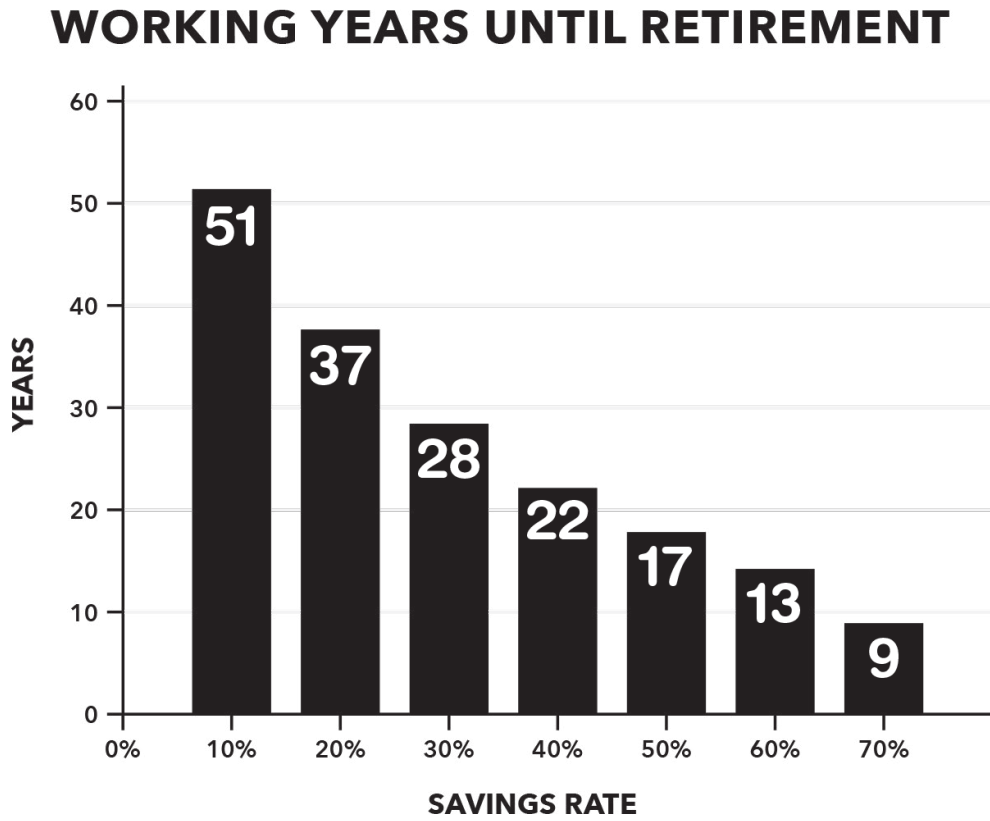
INCREASING (AND PROJECTED INCREASES TO) LIFE EXPECTANCY



CHAPTER 5

Accelerating Your Retirement Timeline

fig. 18



CHAPTER 6

Social Security and Pensions

fig. 19



fig. 20

WHEN PEOPLE CLAIM SOCIAL SECURITY

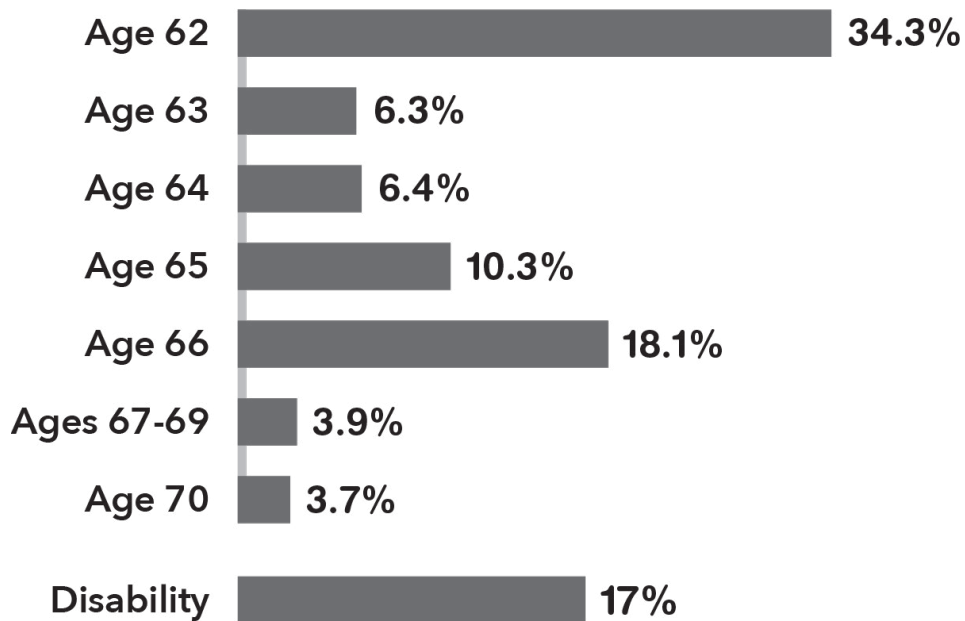


fig. 21

RETIREMENT AGES FOR FULL SOCIAL SECURITY BENEFITS

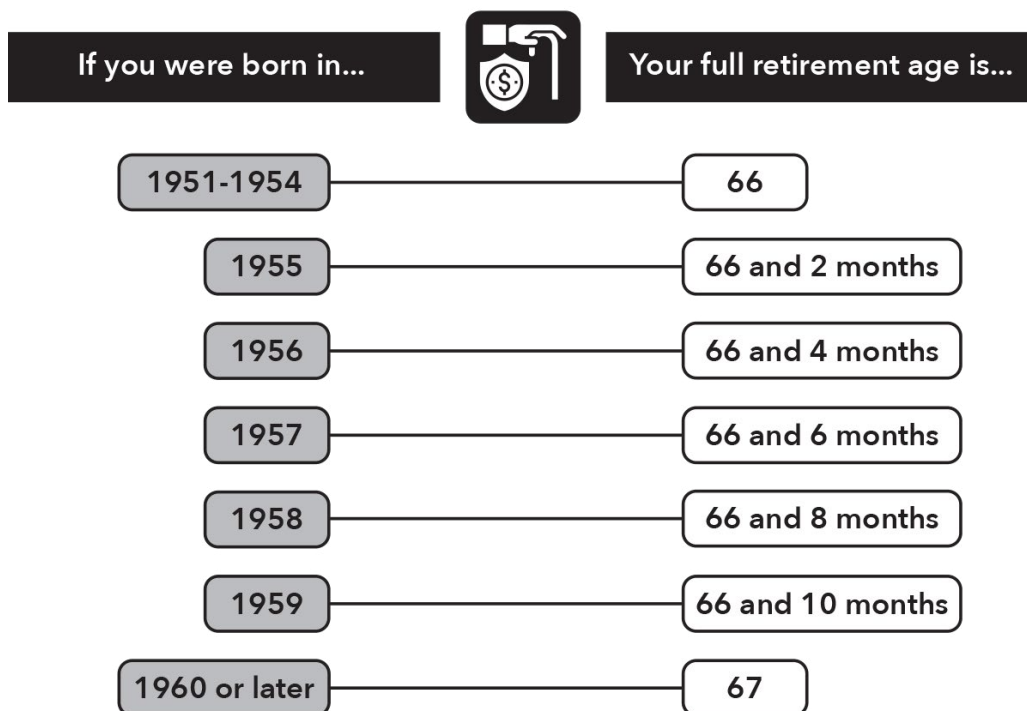


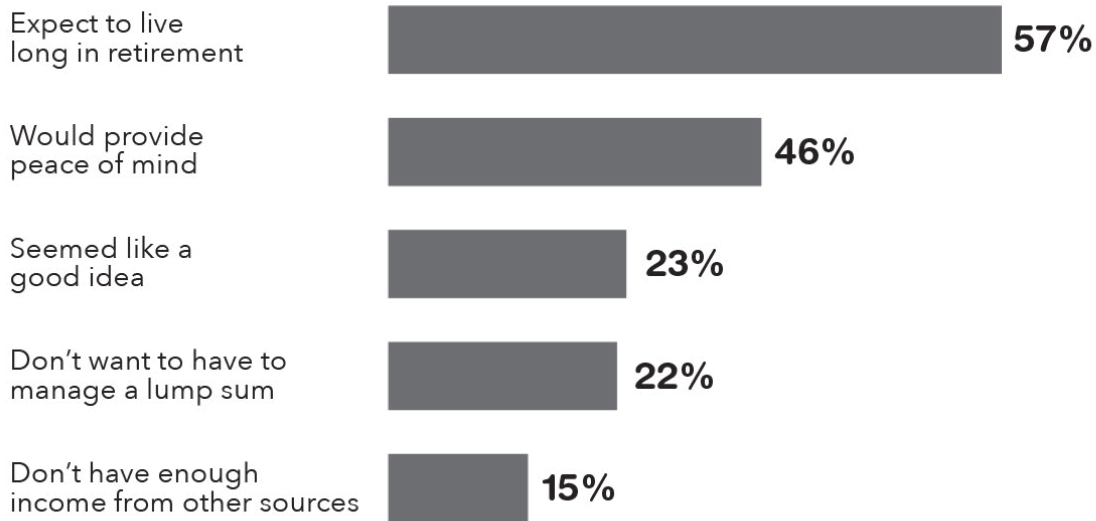
fig. 22

10 JOBS Likely To Offer Traditional Pensions

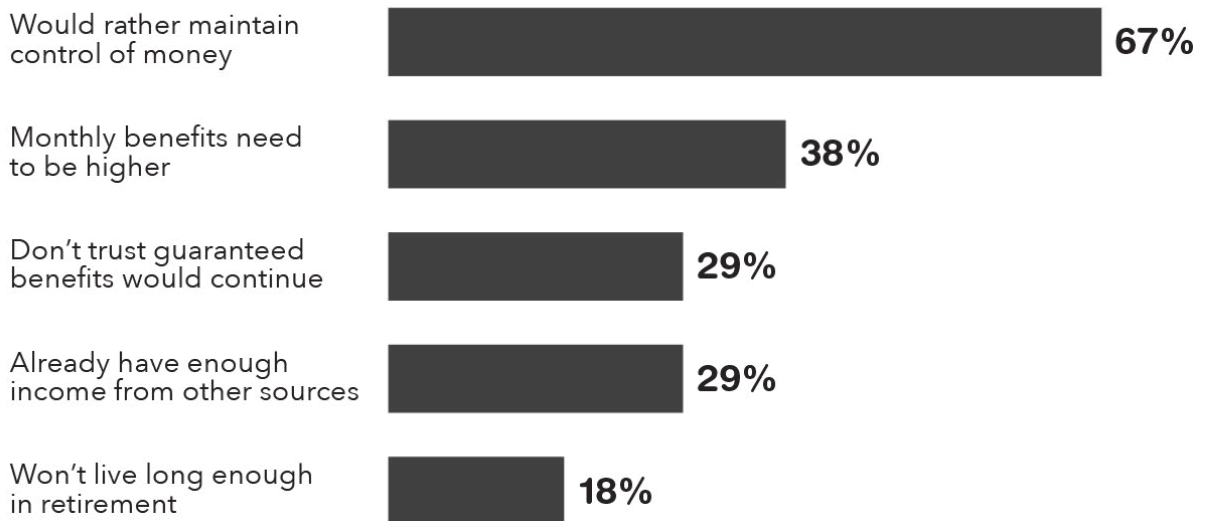


fig. 23

REASONS FOR PREFERRING GUARANTEED LIFETIME INCOME



REASONS FOR PREFERRING A LUMP SUM



CHAPTER 7
Annuities

fig. 24

ANNUITY TYPES

FIXED ANNUITY	INDEXED ANNUITY	VARIABLE ANNUITY	IMMEDIATE ANNUITY	DEFERRED ANNUITY
<ul style="list-style-type: none">· Guaranteed payment at future date· Can be immediate or deferred· Surrender period varies in length· Low risk	<ul style="list-style-type: none">· Can provide a return with a rise of a market index, such as the S&P 500· Contains features of both fixed and variable annuities· If index is negative, annuity is credited with 0% interest	<ul style="list-style-type: none">· You invest your money from a range of subaccounts· Carries more risk but also increases possibility for profit· Value of the annuity dependent on performance of subaccounts	<ul style="list-style-type: none">· Begins payments shortly after it is purchased· Can be either fixed or variable· Also known as income annuity	<ul style="list-style-type: none">· Payments begin at a future date, selected by annuity owner· Can be fixed, indexed, or variable· Money grows on a tax-deferred basis

fig. 25

A.M. BEST		S&P		MOODY'S		FITCH RATINGS	
A++	SUPERIOR	AAA	EXTREMELY STRONG	Aaa	EXCEPTIONAL	AAA	EXCEPTIONALLY STRONG
A+		AA+	VERY STRONG	Aa1	EXCELLENT	AA+	VERY STRONG
A	EXCELLENT	AA		Aa2		AA	
A-		AA-		Aa3		AA-	
B++	GOOD	A+	STRONG	A1	GOOD	A+	STRONG
B+		A		A2		A	
B	FAIR	A-		A3		A-	
B-		BBB+	GOOD	Baa1	ADEQUATE	BBB+	GOOD
C++	MARGINAL	BBB		Baa2		BBB	
C+		BBB-		Baa3		BBB-	
C	WEAK	BB+	MARGINAL	Ba1	QUESTIONABLE	BB+	MARGINAL
C-		BB		Ba2		BB	
D	POOR	BB-		Ba3		BB-	
E	UNDER REGULATORY SUPERVISION	B+	WEAK	B1	POOR	B+	WEAK
F	IN LIQUIDATION	B		B2		B	
		B-		B3		B-	
		CCC+	VERY WEAK	Caa1	VERY POOR	CCC+	VERY WEAK
		CCC		Caa2		CCC	
		CCC-		Caa3		CCC-	
		CC	EXTREMELY WEAK	Ca	EXTREMELY POOR	CC	EXTREMELY WEAK
				C	LOWEST	C	DISTRESSED

CHAPTER 8

Reaping the Rewards of Sound Retirement Planning

fig. 26

	BROKERAGE AND BANK ACCOUNTS	TRADITIONAL RETIREMENT ACCOUNTS	ROTH ACCOUNTS
Account examples	Brokerage, savings, CD	Traditional 401(k), traditional 403(b), IRA, rollover IRA, etc.	Roth 401(k), Roth 403(b), Roth IRA
Taxes to keep in mind when withdrawing	Capital gains and ordinary income taxes	Income taxes	None (if certain conditions are met)
Important factors	Capital gains rates are 0 percent, 15 percent, or 20 percent depending on your taxable income	Withdrawals are taxed as ordinary income Potentially higher tax rates the more you withdraw Part of calculation to determine Social Security tax and Medicare premiums	Has no impact on any tax calculation

fig. 27

ORDER OF ACCOUNTS FROM WHICH TO WITHDRAW MONEY



fig. 28

TAX RATES FOR 2021			
REGULAR INCOME		QUALIFIED DIVIDENDS & CAPITAL GAINS	
INCOME BRACKET	TAX RATE	INCOME BRACKET	TAX RATE
up to \$9,950	10%	up to \$40,400	0%
\$9,951 to \$40,525	12%		
\$40,526 to \$86,375	22%	\$40,401 to \$445,850	15%
\$86,376 to \$164,925	24%		
\$164,926 to \$209,425	32%		
\$209,426 to \$523,600	35%	\$445,851 or more	20%
\$523,601 or more	37%		

CHAPTER 9

Fraud

fig. 29

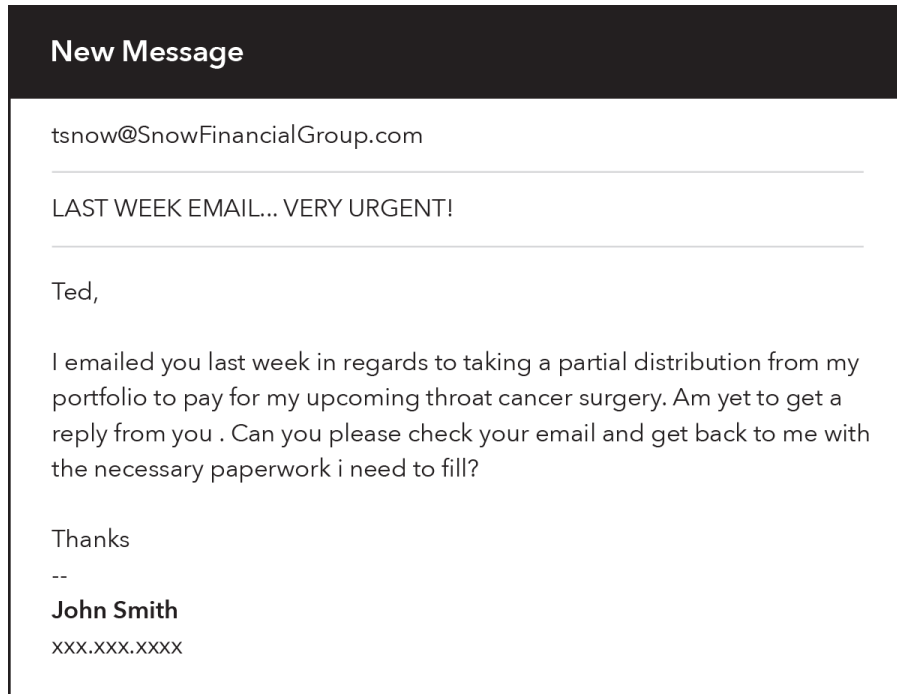
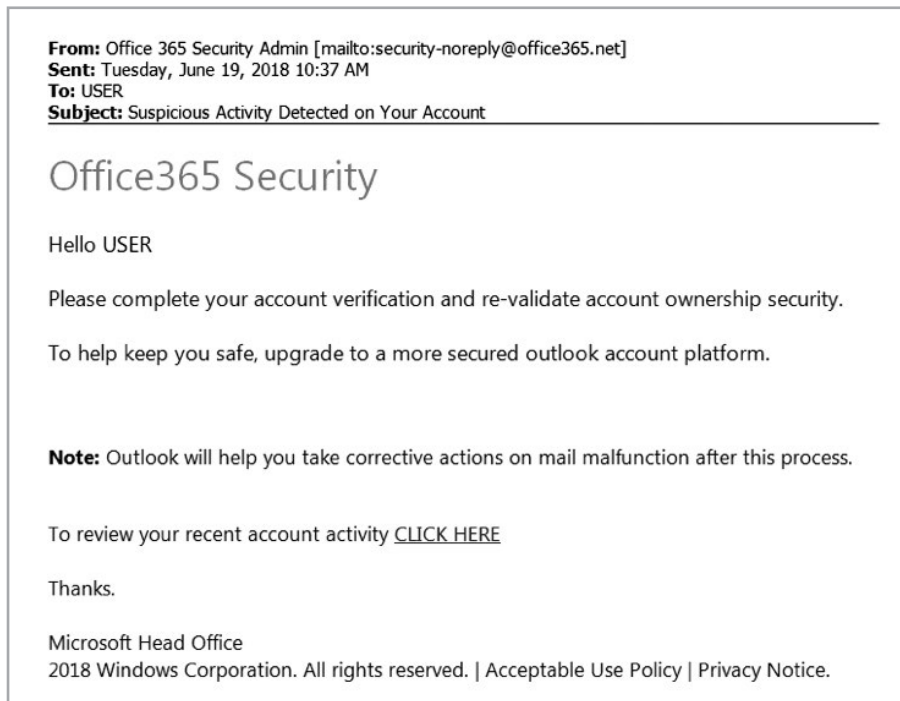


fig. 30



CHAPTER 10

Managing Your Portfolio

fig. 31

IMPORTANCE OF ASSET ALLOCATION

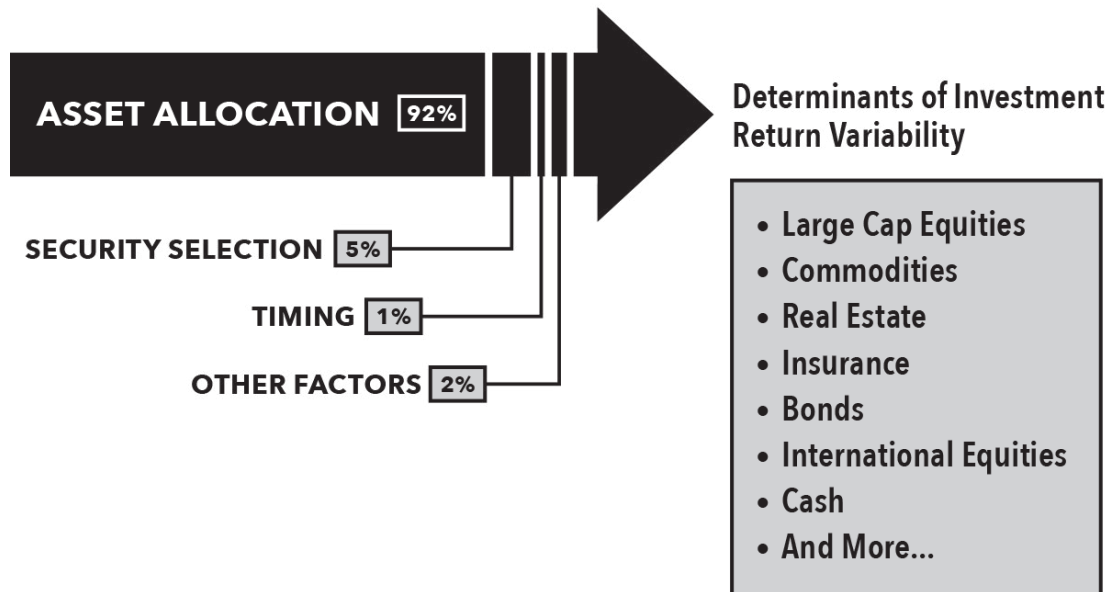


fig. 32

2012	2013	2014	2015	2016	2017	2018	2019
Emerging Market Equities 18.23%	Small-Cap Equities 38.82%	Large-Cap Equities 13.69%	Large-Cap Equities 1.38%	Small-Cap Equities 21.31%	Emerging Market Equities 37.28%	US Fixed Income (Bonds) 0.01%	Large-Cap Equities 31.49%
Small-Cap Equities 16.35%	Large-Cap Equities 32.39%	US Fixed Income (Bonds) 5.97%	US Fixed Income (Bonds) 0.55%	Large-Cap Equities 11.96%	Large-Cap Equities 21.83%	Large-Cap Equities -4.38%	Small-Cap Equities 25.52%
Large-Cap Equities 16.00%	US Fixed Income (Bonds) -2.02%	Small-Cap Equities 4.89%	Small-Cap Equities -4.41%	Emerging Market Equities 11.19%	Small-Cap Equities 14.65%	Small-Cap Equities -11.01%	Emerging Market Equities -14.57%
US Fixed Income (Bonds) 4.21%	Emerging Market Equities -2.60%	Emerging Market Equities -2.19%	Emerging Market Equities -14.92%	US Fixed Income (Bonds) 2.65%	US Fixed Income (Bonds) 3.54%	Emerging Market Equities -14.57%	US Fixed Income (Bonds) 8.72%

fig. 33

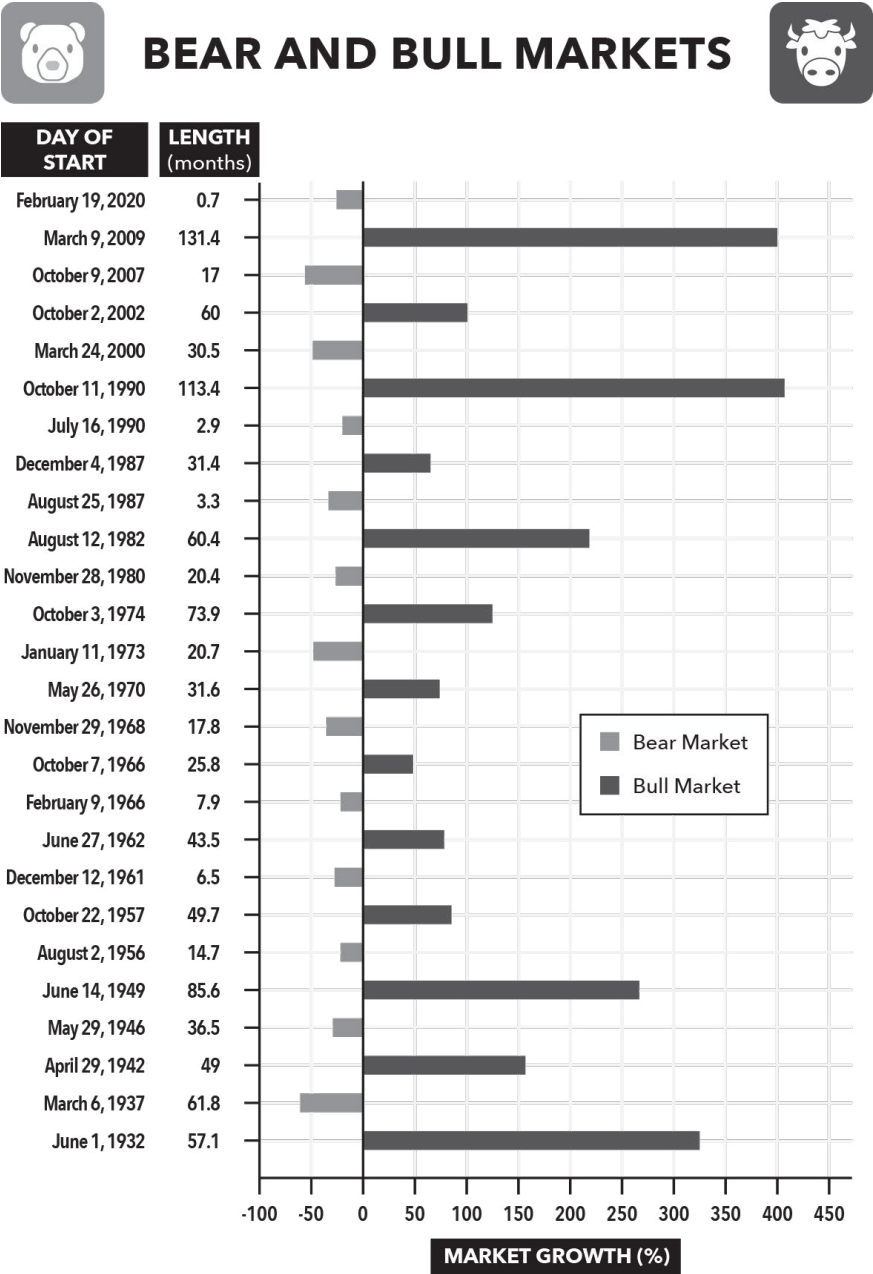



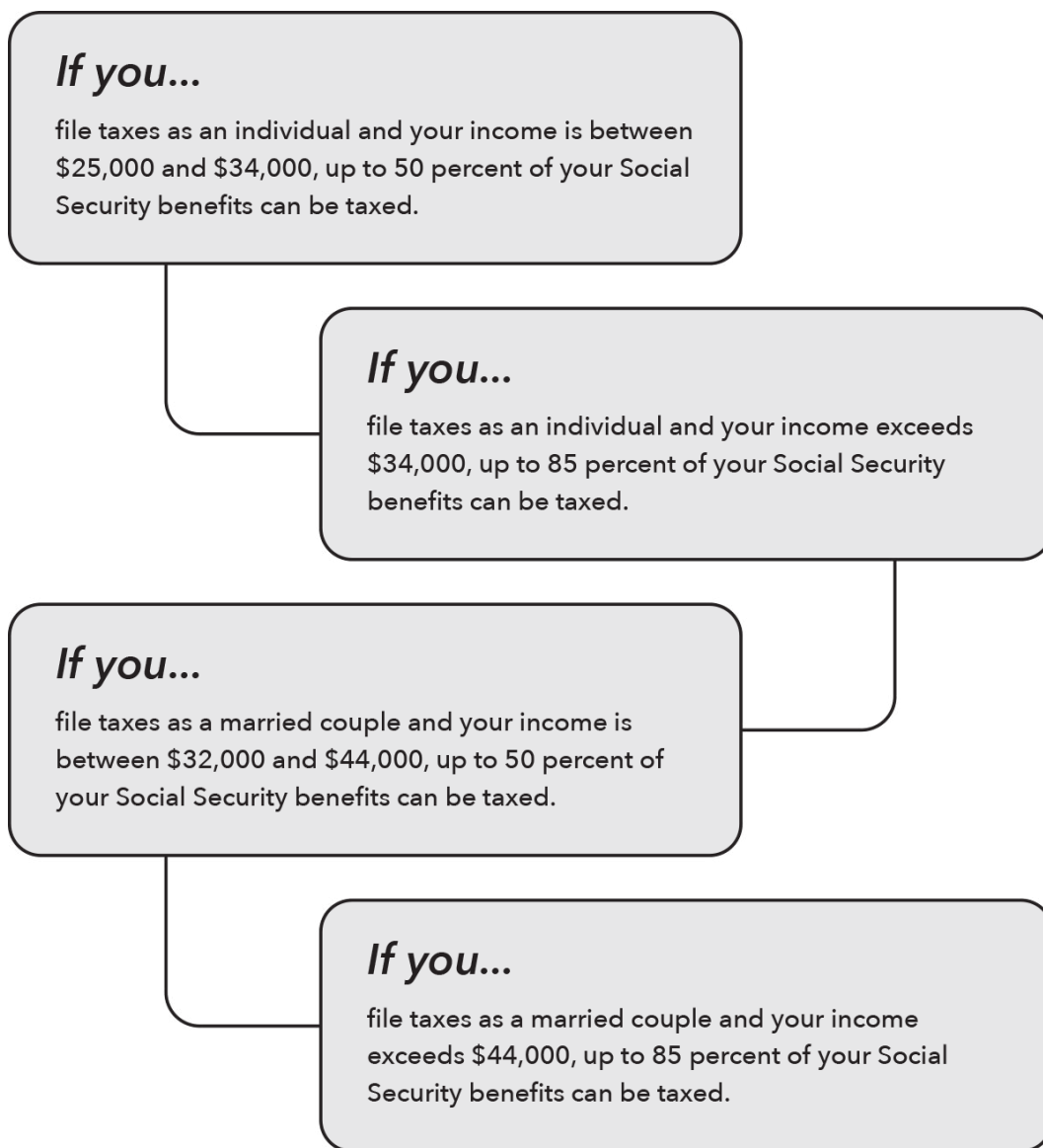
fig. 34



HISTORY OF MARKET CRASHES

EVENT	DATE	16-DAY CHANGE
Wall Street Crash of 1929	October 29, 1929	-33.6%
Black Monday	October 19, 1987	-31.3%
End of Gold Standard	October 5, 1931	-26.7%
Lehman Crisis	November 20, 2008	-25.2%
World War II	May 21, 1940	-24.6%
COVID-19 Outbreak	March 12, 2020	-20.7%
Dot-com Bubble	Jul 23, 2002	-19.3%
Post-WWII Demand Stock	September 10, 1946	-16.9%
US Debt Downgrade	August 8, 2011	-16.7%
Great Financial Crisis	March 4, 2009	-13.8%
LTCM	August 5, 1998	-8.7%

fig. 35



CHAPTER 11

Retiring from Work and Into Life

fig. 36

THE 3 STAGES OF RETIREMENT



fig. 37

Frommer's Guide to 10 SENIOR-FRIENDLY Travel Destinations



US National Parks



Machu Picchu, Peru



The Caribbean



Canadian Rockies



Alaska



Thailand



Central Europe's Rivers



St. Augustine, Florida



Santa Fe, New Mexico



South Africa

CHAPTER 12

Managing Your Health Plans

fig. 38

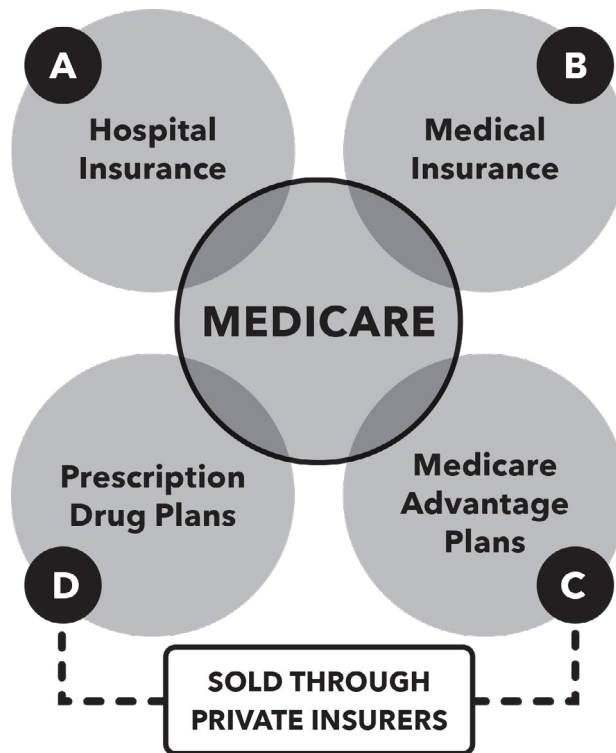
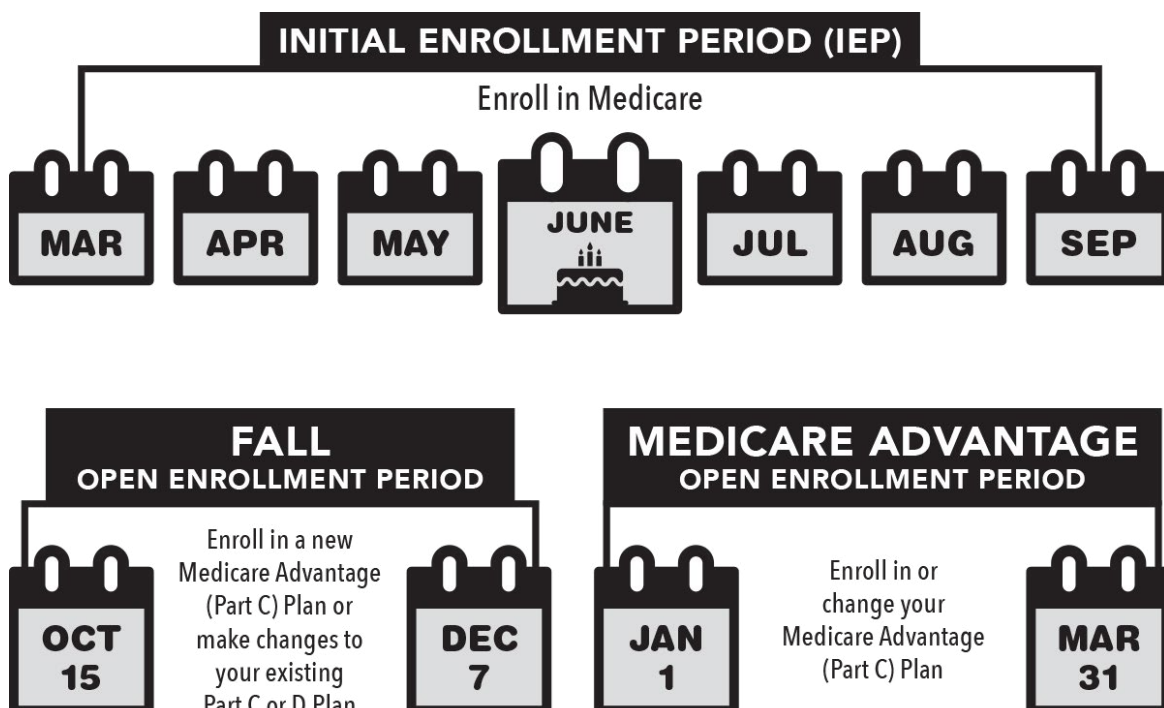


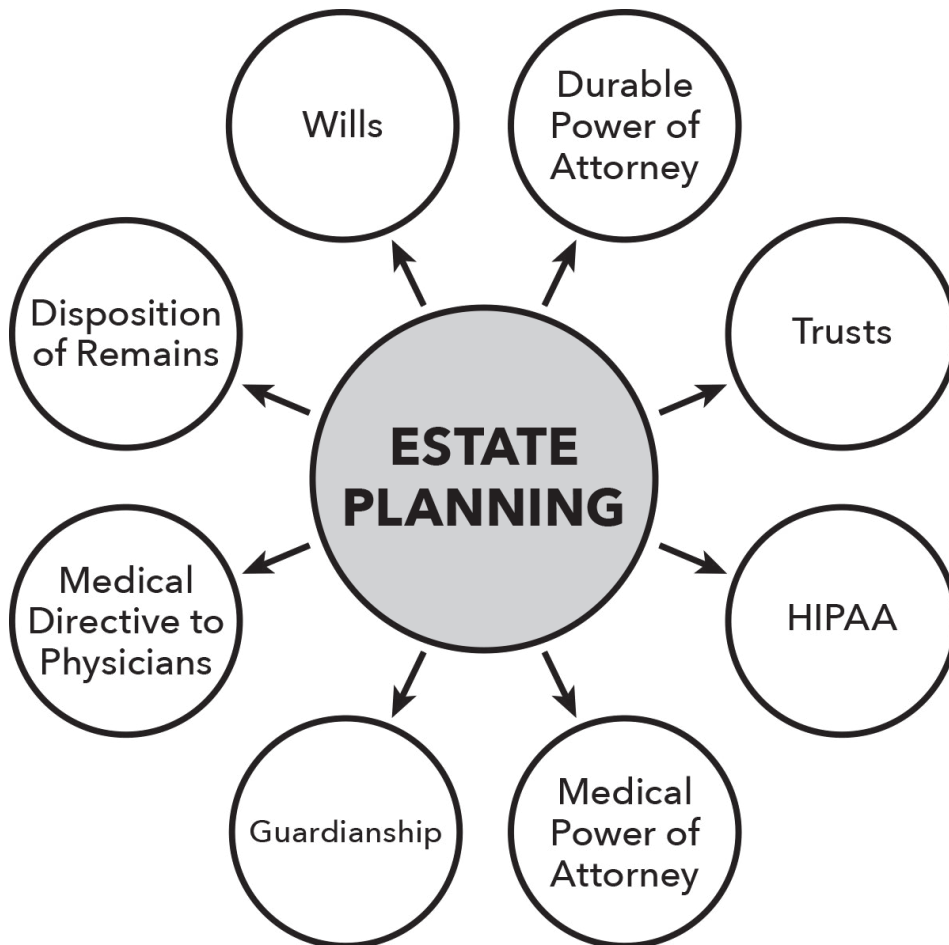
fig. 39



CHAPTER 13

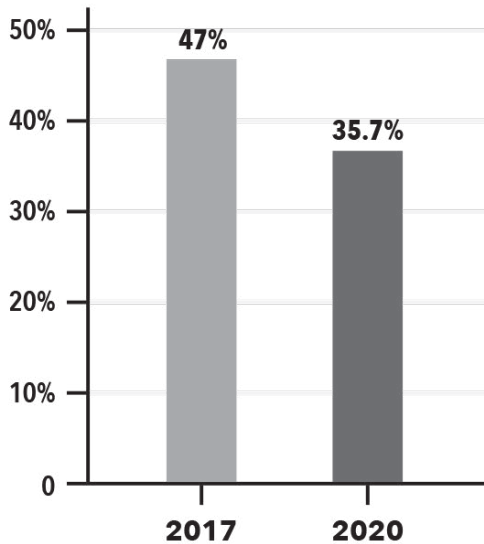
Estate Planning

fig. 40

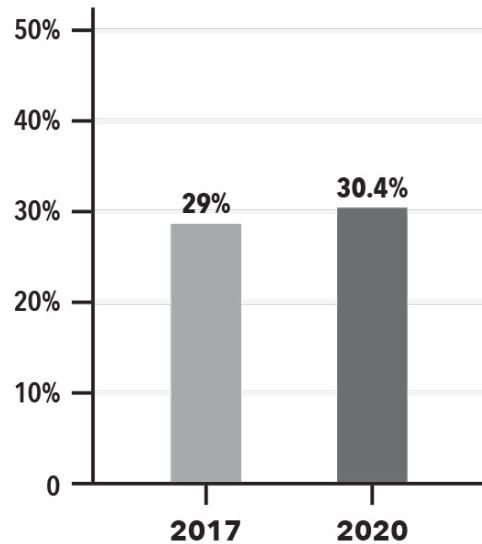


MORE PEOPLE ARE SAYING THEY CAN'T AFFORD OR DON'T KNOW HOW TO GET A WILL

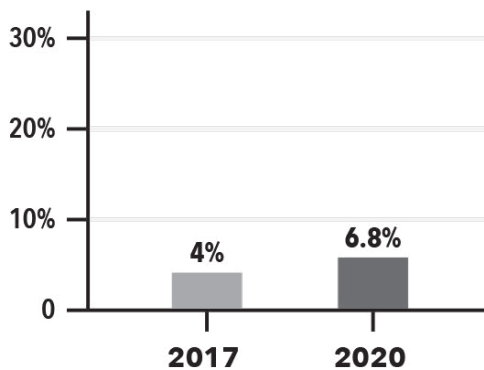
"I haven't gotten around to it"



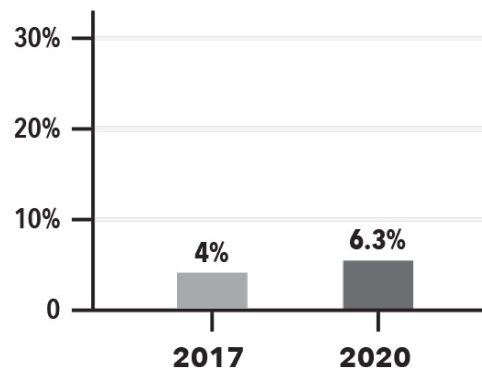
"I don't have enough assets to leave anyone"



"It's too expensive to set up"



"I don't know how to get a will or living trust"



STATES THAT HAVE INHERITANCE TAX OR ESTATE TAX



fig. 43

**MISTAKES COMMONLY MADE
WHEN PLANNING FOR RETIREMENT**















 Not setting financial goals in alignment with lifestyle goals	 Not committing to being financially successful
 Not defining a life plan leading up to and including retirement	 Not obtaining education about personal finance
 Not managing credit wisely	 Not confronting one's financial reality
 Not seeking professional assistance	 Not using tax laws to one's advantage
 Not allocating assets properly and adjusting as needed	 Not planning for the unexpected
 Not taking full advantage of employer benefits	 Not choosing the most efficient ways to make distributions from retirement accounts
 Not having an estate planning strategy	 Not creating a comprehensive financial plan

fig. 44

IT'S ALL CONNECTED



fig. 45

- A** Annual rebalancing of investment portfolios
 - + **B** Behavioral mistakes individual investors typically make
 - + **C** Cost of basic investment-only management
 - + **P** Planning costs and ancillary services
 - + **T** Tax-smart planning and investing
-

THE SUM > THE FEE

The annual advisory fee
charged to clients

APPENDIX I

Online Advisors and Robo-Advisors

fig. 46

BEST ONLINE BROKERS 2020








Best overall and for beginners	Best research experience	Best for IRA accounts	Best rewards program
 Ameritrade	 Fidelity INVESTMENTS	 <i>charles</i> SCHWAB	 MERRILL EDGE
Best web platform	Best for professionals	Best platform technology	
 E*TRADE	 Interactive Brokers	 TradeStation	

fig. 47

BEST ROBO-ADVISORS IN JUNE 2020

Best for service	Best for low fees	Best for usability	
 Betterment	 wealthfront	 <i>charles</i> SCHWAB	 INTELLIGENT PORTFOLIOS
Best for educational resources	Best goal-based investing		
 SoFi	 ELLEVEST		

APPENDIX II

State Health Insurance Assistance Program Numbers

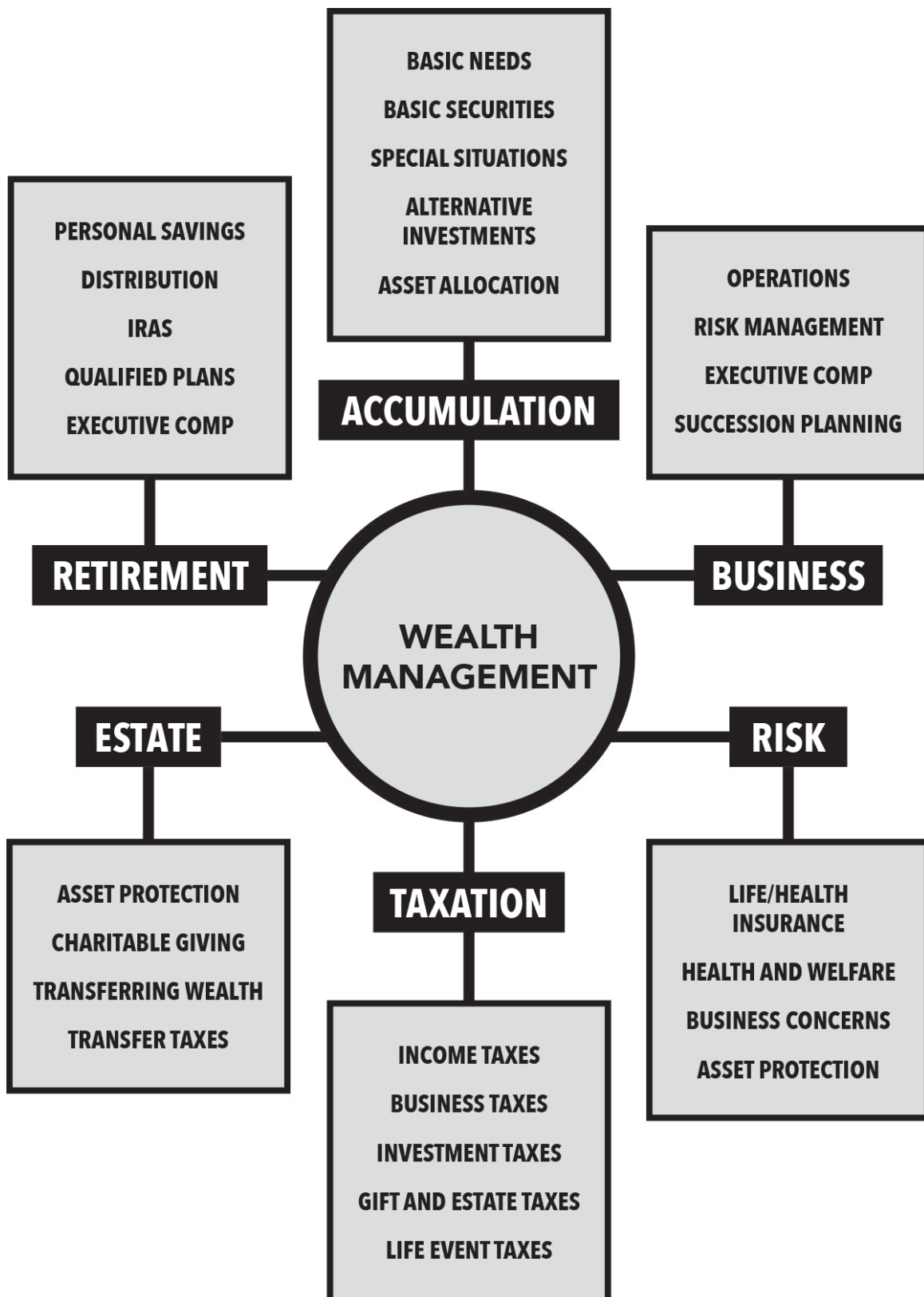
fig. 48

STATE	PHONE NUMBER	STATE	PHONE NUMBER
AL	800-243-5463	MT	800-551-3191
AK	800-478-6065 or 907-269-3680	NE	800-234-7119, 402-471-2201, or 800-833-7352 (TDD)
AZ	800-432-4040 or 602-542-4446	NV	800-307-4444 or 702-486-3478
AR	800-224-6330 or 501-371-2782	NH	866-634-9412
CA	800-434-0222	NJ	800-792-8820
CO	888-696-7213	NM	800-432-2080 or 505-476-4846
CT	800-994-9422	NY	800-701-0501
DE	800-336-9500 or 302-674-7364	NC	800-443-9354 or 919-807-6900
D.C.	202-739-0668	ND	888-575-6611, 701-328-2440, or 800-366-6888 (TTY)
FL	800-963-5337	OH	800-686-1578
GA	866-552-4464	OK	800-763-2828
HI	888-875-9229 or 866-810-4379 (TTY)	OR	800-722-4134
ID	800-247-4422	PA	800-783-7067
IL	800-548-9034 or 217-524-4872 (TDD)	RI	401-462-4000
IN	800-452-4800 or 866-846-0139 (TDD)	SC	800-868-9095
IA	800-351-4664	SD	800-536-8197
KS	800-860-5260	TN	877-801-0044
KY	877-293-7447	TX	800-252-9240
LA	800-259-5301	UT	800-541-7735
ME	800-262-2232 or 800-606-0215 (TTY)	VT	800-642-5119
MD	800-243-3425 or 410-767-1100	VA	800-552-3402 or 804-662-9333
MA	800-243-4636, 617-727-7750, or 800-872-0166 (TDD/TTY)	WA	800-562-6900
MI	800-803-7174	WV	877-987-4463 or 304-558-3317
MN	800-333-2433	WI	800-242-1060
MS	800-345-6347 or 601-359-4929	WY	800-856-4398
MO	800-390-3330		

APPENDIX III

The Universe of Comprehensive Financial Planning

fig. 49



GLOSSARY

1031 exchange

A concept in real estate that allows someone to exchange one investment property for another and defer capital gains taxes.

Accumulation phase

The period during which one pays money to an insurance company for an annuity.

Additional purchase option

An option in a disability insurance policy that enables the holder of the policy to upgrade it without any additional underwriting qualifications.

Agent

An individual designated in a power of attorney to act on behalf of the principal in the event the principal becomes incapacitated. Also known as the attorney-in-fact.

Annuitization phase

The period during which one gets money back from an insurance company for an annuity.

Annuity

A financial product for which a contract is established between a buyer and an insurance company for the insurance company to provide an income stream to the buyer for a specified amount of time or for life.

Any occupation

A definition in a disability insurance contract that restricts benefits if an employer can find another job within the company for an employee who, because of disability, is not able to perform their usual job.

Asset allocation

A method used to balance different types of investments to ensure diversification and manage risk.

Attorney-in-fact

An individual designated in a power of attorney to act on behalf of the principal in the event the principal becomes incapacitated. Also known as the agent.

Balanced fund

A type of mutual fund that includes both stocks and bonds.

Basis

The combined costs of the purchase price of a property and any improvements made to it.

Bear market territory

A period during which a stock market loses 20 percent or more of its value, resulting in investor fear and widespread sale of investments.

Blue chip stock

Stock of a company that has a well-established reputation for dependability and quality and can generate a profit during both good and challenging economic times.

Bonds

Lending instruments issued by the government or private agencies in exchange for cash. Bondholders are paid interest at prescribed rates and intervals and are repaid the bond's full principal amount when the bond reaches its maturity date.

Bond market

The over-the-counter market on which bonds are traded.

Bull market

A period during which the value of a stock market increases by 20 percent or more over a given period, encouraging investor buying and fueling optimism.

Capital gains

Profit resulting from the sale of a property or investment.

Capital gains taxes

Taxes levied on profit that results from the sale of a property or investment.

Capital losses

Losses that result from the sale of a property or investment.

Cash equivalent

An asset that can be converted into cash immediately. Bank accounts, marketable securities, and money market accounts are considered cash equivalents.

Certificate of deposit (CD)

A financial product offered by banks, thrifts, and credit unions that contains a fixed term of deposit and normally a fixed interest rate.

Charitable remainder trust

A type of trust that enables an individual to support a charity in a manner that generates income for the donor.

Children's Health Insurance Program

A federally administered program that provides matching funds to states to be used to provide health insurance for children who do not qualify for Medicaid.

Cliff vesting

A type of vesting schedule that requires an employee to work for a predetermined amount of time before receiving any employer contributions to a 401(k) plan.

Commission

A portion of the expense of an investment given to the agent or broker who sold it.

Common stock

A type of company stock that usually comes with voting rights for the shareholder.

Compound interest

A powerful financial dynamic created when interest earned on an investment principal begins to earn interest of its own.

Conservator

One or more individuals appointed by the court to manage a person's affairs in the event they are unable to do so.

Consolidated Omnibus Budget Reconciliation Act (COBRA)

A policy that requires employers to allow employees to continue making payments on the same health insurance coverage the employee had before quitting, retiring, or being fired from a job, except if the termination was a result of gross misconduct.

Convertible term policy

A type of term life insurance that enables one to convert the policy to a whole life policy without providing evidence of insurability.

Cost-of-living adjustment (COLA)

An adjustment made to a fixed payment, such as Social Security benefits, intended to help the recipient keep up with inflation.

Cybersecurity

The practice of defending computers, computer systems, mobile devices, networks, data, servers, and other electronic equipment and information from malicious attack.

Cyclical stock

Stock that is negatively affected by downturns in the economy.

Death benefit

A benefit paid to a beneficiary at the time of death of a life insurance policy holder.

Deductible

The amount of money the holder of an insurance policy must pay toward a claim before the insurer begins paying for services.

Defensive stock

A class of stock that is not easily affected by the overall condition of the economy.

Deferred annuity

A type of annuity that does not begin payouts until a post-purchase date selected by the owner of the annuity.

Defined benefit pension plan

A plan in which an employer provides a retired worker with a fixed income from the time of retirement to the end of life.

Defined contribution plan

A plan in which an employee—not an employer—contributes a portion of every paycheck to an account set up to fund retirement.

Delayed retirement credits

Social Security benefits that are delayed past an individual's full retirement age, up until age seventy, when benefits must be taken. Delayed benefits are paid at a higher rate than those taken before or at full retirement age.

Dividends

A portion of a company's earnings distributed to a class of shareholders.

Dividend reinvestment

The process of using dividend proceeds to purchase additional stock.

Dividend reinvestment plan (DRIP)

An automatic investment plan that enables investors to apply dividends they receive from a company to the purchase of additional shares of stock from that company.

Durable power of attorney

A type of power of attorney that grants the agent authority to make decisions regarding financial matters.

Earned income

All income from employment or self-employment, including wages, salaries, tips, royalties, and other taxable employee compensation.

Emergency fund

An amount of money set aside for use when needed in an emergency, such as a job loss.

Emotional vitality

A trait that encompasses enthusiasm, hopefulness, engagement with life, and the ability to face life's stresses with emotional balance. The trait may reduce risk for heart attack and stroke.

Estate plan

A collection of legal documents and strategies that outlines what should happen to one's assets when they die.

Estate tax

A tax levied on the transfer of the estate of a deceased person. The amount of the tax is deducted from the value of the estate before the estate can be divided among heirs.

Evidence of insurability

Proof of good health necessary to secure some types of insurance policies.

Exchange-traded fund (ETF)

An investment instrument that contains a pool of assets and trades on the open market. The value of ETFs fluctuates as they are bought and sold throughout the day.

Executor

An individual designated to manage the disposition of an estate after the death of its owner.

Expense ratio

A fee assessed annually by managers of ETFs or mutual funds. Expense ratios account for administrative overhead and other fixed costs of managing the account.

Federal Employees Retirement System (FERS)

A retirement system under which US civilian employees receive retirement benefits from a pension, Social Security, and the Thrift Savings Plan, which is like a 401(k) plan.

Federal poverty level

A measure of income issued annually by the US Department of Health and Human Services and used to determine eligibility for some government programs.

Fiduciary relationship

A relationship in which one party places a high level of trust and confidence in another party, who bears a duty to act in the best interests of the first party.

Financial independence

The state of being able to support oneself financially in the way one would like to live, without need of help from anyone else.

Financial power of attorney

A type of power of attorney that enables an agent to act on behalf of the principal in matters related to finances.

Fixed annuity

A type of annuity that earns a specified rate of interest over a designated period.

Fully funded pension plan

A pension plan that contains enough assets to cover both the benefits it currently pays and those it will need to pay in the future.

Graded vesting

A type of vesting schedule that enables an employee to gradually take ownership of an employer's contributions to a 401(k) plan.

Grantor

An individual who creates a trust and transfers property into it.

Gross domestic product

The total value of all goods and services produced within a country's border during a specific time.

Growth stock

The stock of a company that is expected to have higher-than-average increases in revenue and earnings.

Guaranteed renewal

A type of disability insurance policy that assures coverage will not be lost if premiums continue to be paid.

Guardian

One or more individuals appointed by the court to take over the affairs of someone who has become incapacitated and has not designated someone to perform that task.

Health savings account (HSA)

An account that offers tax advantages as one saves money for future medical expenses.

HIPAA release form

A legal document that gives permission for protected health information to be shared with designated family members or others.

High-deductible insurance plan

A type of insurance plan that contains high deductibles, meaning the amount the insured person must pay before the insurer starts covering costs.

High-yield bonds

Bonds offered by unreliable companies that are prone to default.

Holographic will

A will that is written and signed by the testator but has no witness to the signature.

Immediate annuity

A type of annuity that begins making payments to the buyer shortly after it is purchased.

Immediate vesting

A vesting schedule that makes an employer's contributions to an employee's 401(k) plan available immediately.

Income stock

Stock that carries a high dividend payout relative to its price.

Index fund

A type of mutual fund or ETF that tracks the performance of a market index such as the Dow Jones Industrial Average or the S&P 500.

Indexed annuity

A type of annuity that contains some features of a fixed annuity but also holds the possibility that one's money can grow if financial markets perform well.

Individual retirement account (IRA)

An account set up with a financial institution into which deposits are made with the purpose of saving money to use in retirement.

Infinite banking

A banking concept that effectively enables an individual to become their own bank to finance their own personal and business transactions.

Inheritance tax

A tax on assets passed from an estate to an heir, which the heir is responsible for paying.

Initial enrollment period

A prescribed period during which someone who wishes to get Medicare can enroll in the program.

Initial public offering (IPO)

The act of offering shares of stock of a private corporation to the public for the first time. A private company that issues stock becomes a publicly held company.

Intestate

The state of dying without a legal will.

Intestate succession

A legal process of distributing the assets of an individual who has died intestate.

Investment-grade bonds

Bonds issued by large reputable companies that have a low risk for default.

Irrevocable trust

A type of trust that, once established, is difficult to alter.

Joint will

A type of will written and executed by two people, typically spouses or partners, stipulating that all assets be passed to the surviving spouse and then to surviving children.

Junk bonds

Bonds that carry a greater risk of default than most bonds issued by governments or corporations.

Large-cap stock

Stock of companies with large market capitalization.

Letter of instruction

A document in addition to a will that provides specific instruction regarding the distribution of assets or other matters.

Leverage

A concept that holds that small amounts of money can be used to exert control over larger amounts of money.

Limited liability company (LLC)

A business structure designed to limit liability to the asset or assets within the LLC and protect one's personal assets in the event they are sued.

Living trust

A type of trust into which property is transferred while the grantor is still alive.

Living will

A document providing health care instructions to an agent who can communicate those wishes if the writer of the living will cannot. Also known as a medical directive to physicians.

Long-term care insurance

A type of insurance purchased to be used if the buyer requires long-term care in the future.

Market capitalization

The total value of all a company's outstanding shares of stock at current prices.

Market timing

A technique employed by investors who buy and sell securities in anticipation of their performance.

Medicaid

A joint federal and state program that provides health insurance coverage to Americans with limited income and resources.

Medical power of attorney

A type of power of attorney that gives an agent authority to act on behalf of the principal regarding medical matters.

Medicare

A federal health insurance program for Americans who are sixty-five or older and for those with certain disabilities.

Medicare Advantage Plan

An alternative to original Medicare that is sold through private insurers who determine premiums. It often is called Medicare Part C.

Money market fund

A type of mutual fund that purchases short-term securities such as cash or cash-equivalent securities.

Money market mutual fund

A type of mutual fund in which the value of one's original investment doesn't change and on which investors have historically earned higher interest than with a savings account.

Mutual fund

An investment in which investors pool their money and a fund manager uses the money to buy a variety of investment vehicles, likely including stocks, bonds, cash equivalents (like T-bills), and real estate.

Mutual fund provider

A financial institution that owns a mutual fund family.

Mutual will

A will in which two people, typically spouses, write and execute a will jointly. Upon the death of one, the other is bound to the terms of the will.

Net asset value

The value of one share of a stock, ETF, or mutual fund.

Noncancelable policy

A type of insurance policy assuring that if premiums are paid, the policy will be renewed each year without an increase in the premium or a reduction of benefits.

Online broker

A broker, or brokerage firm, that interacts with customers online rather than in person. Online brokers can also offer resources to enable clients to conduct their own trading.

Open-end mutual fund

A type of mutual fund that has no size limit and can continually issue shares in response to demand.

Oral will

A will in which the testator verbally expresses their wishes in front of witnesses.

Original Medicare

Parts A and B of Medicare, which cover hospitalization and medically necessary services.

Own occupation

A definition in a disability insurance policy that assures that benefits will be paid in the event the holder of the policy becomes disabled and is not able to perform the precise job for which they were hired, even if a different job is available at the same company.

Penny stock

A low-priced stock, usually traded at less than five dollars per share and sometimes traded outside of the major stock exchanges.

Periodic investment plan

A plan set up with a broker that draws a dollar amount from one's cash account at regular intervals to be reinvested in designated securities.

Phishing

A form of cybercrime in which cybercriminals attempt to steal personal information by sending a text, email, or other form of correspondence intended to trick a user.

Pour-over will

A will used in conjunction with a trust that ensures the remaining assets of the deceased will automatically transfer to a designated trust at the time of death.

Power of attorney

A legal document that authorizes an individual to act on behalf of another if the other becomes incapacitated. Power of attorney can also refer to the person authorized to act on another's behalf.

Preferred stock

A type of company stock that normally does not offer voting rights to the shareholder.

Premium protection

An optional plan or rider with an insurance policy that guarantees the insured will not lose their original investment.

Premium

The amount of money an individual, family, or company pays on a regular basis, usually monthly, for an insurance plan.

Primary insurance amount

The amount of Social Security benefits one receives if they start taking benefits at their full retirement age.

Primary market

A market where stocks and bonds are offered for the first time, such as stock that is offered in an initial public offering.

Principal

The individual who appoints someone to act on their behalf as power of attorney if they become incapacitated.

Probate

The court-supervised process of verifying the will of a deceased person.

Public sector exemption from Social Security

A stipulation that excludes public employees in fifteen states from contributing to Social Security, which excludes them from receiving Social Security benefits when they retire.

Qualified distributions

Money that can be withdrawn without penalty from a 401(k) or IRA when the owner of the plan turns fifty-nine and a half.

Qualified dividends

Dividends that are taxed at the capital gains rate instead of the higher rate levied on ordinary dividends.

Rebalancing of portfolio

The process of buying or selling assets within a portfolio to ensure that the balance remains at its original target allocation.

Regular income

Also called ordinary income, it is the income generated through salaries and wages and taxed at ordinary rates.

Required minimum distributions

Withdrawals that are required to be taken from a retirement account when one reaches a certain age.

Revocable trust

A type of trust that can be changed after it is established by the grantor.

Roth 401(k)

A variation of a traditional 401(k) for which contributions are taxed up front and do not reduce taxable income. Assuming certain criteria have been met, money is not taxed when it is taken out of the account, regardless of how much the account has grown.

Secondary market

A market where investors buy assets from other investors on an exchange instead of from issuing companies.

Self-directed brokerage window

An option with a 401(k) plan that allows for additional investment opportunities via the buying and selling of securities through a brokerage platform.

Series LLC

A type of limited liability company (LLC) designed to cover a series of assets, keeping them siloed off from one another's potential liabilities. Series LLCs are not available in all states.

Simple LLC

A type of limited liability company (LLC) designed to limit liability to a single asset.

Simplified employee pension (SEP) IRA

A type of IRA that enables a business owner to make pretax contributions for herself and her employees. A self-employed person who does not have any employees can also save with a SEP IRA.

Small-cap stock

Shares of stock of companies with small market capitalization values.

Social Security Administration (SSA)

An independent agency of the United States government that administers the Social Security program.

Social Security Trust Fund

A United States Treasury fund that holds money not needed to pay Social Security benefits and administrative costs in the current year. The money is required by law to be invested in Treasury bonds that are guaranteed by the US government.

Spousal benefit

A Social Security benefit based on the work history of an individual but paid to the individual's spouse.

Spousal IRA

A type of IRA that allows a spouse to contribute money on behalf of the other spouse, who does not have earned income.

State Health Insurance Assistance Program

A federally funded program established to help individuals choose plans, resolve billing issues, handle complaints about medical care or treatment, and help clarify other issues involving Medicare.

Stepped-up basis rule for inherited property

A readjustment of the value of an appreciated asset for tax purposes when a property is passed along to an heir.

Stock exchange

A platform used by investors to buy and sell investments, mainly stocks.

Stock option

A form of compensation that gives employees the right to buy shares of their company's stock.

Stock

An asset class used as a tool for a company or other entity to raise money. Owning stock in a company represents partial ownership of that company.

Supplemental insurance plan

An insurance plan used to supplement another plan, such as Medicare, which covers some but not all of an individual's medical expenses.

Surrender period

The period during which money cannot be withdrawn from an annuity without incurring a penalty. It is sometimes called the surrender charge period.

Systematic withdrawal plan

A strategy in which regular withdrawals are taken from a mutual fund or other account with the intent of lowering the tax rate of long-term gains.

Tax-loss harvesting

A method of offsetting capital gains with capital losses incurred by selling an investment for less than the purchase price.

Tax-deferred

A tax feature that prevents the money in an account from being taxed until the savings are withdrawn.

Term life insurance

Life insurance that covers a certain period, often ten, twenty, or thirty years.

Testamentary trust

A type of trust into which property is transferred after the death of the grantor.

Testamentary will

A will that is prepared and signed by the testator in the presence of witnesses. It is the most common and frequently used type of will.

Testator

An individual who prepares and signs a will.

Thrift Savings Plan

A defined contribution plan for United States civil service employees and retirees. Members of uniformed services, which include military and some other corps, also participate in the plan.

Tolerance for risk

The degree to which an investor is willing to risk loss to the value of an investment.

Trust

An estate planning tool with which a person known as the trustor gives another person, known as the trustee, the right to hold title to property or assets on behalf of one or more beneficiaries.

Trustee

A person designated to hold title to property or assets on behalf of a beneficiary.

Underfunded pension

A pension that does not contain enough assets to fund its obligations.

Unfunded plan

A pension that uses company income to make pension payments as it becomes necessary to do so. Also known as a pay-as-you-go plan, as there are no assets set aside.

Unqualified dividends

A type of dividend that is taxed at the standard income tax rate, which is higher than the capital gains rate at which qualified dividends are taxed.

Value stock

Stock that is undervalued compared to that of similar companies.

Variable annuity

A type of annuity that gains or loses value depending on the performance of the subaccounts on which it is based.

Vesting schedule

A schedule that determines when a benefit, such as an employer-matched 401(k) plan, becomes available to an employee. Usually tied to an employee's length of employment.

Whole life insurance

A life insurance policy that, as one pays premiums, enables them to accumulate a cash value in the policy that can be accessed prior to their death.