403(b) & 457 Plan Terms Glossary

12b-1 fee. An annual marketing or distribution fee on a mutual fund. The 12b-1 fee is considered an operational expense and, as such, is included in a fund's expense ratio. It is generally between 0.25-1% (the maximum allowed) of a fund's net assets.
Actively managed fund. A single manager, co-managers or a team of managers actively choose the investments in a fund's portfolio.
Annuity. This is a contract between an insurance company and an individual that generally guarantees a lifetime income option, usually at retirement, in return for either a lump sum or periodic premium payments. See fixed annuity and variable annuity.
Asset class. These are the main categories of investments at the most basic level, generally stocks (also called equities), bonds and cash or cash equivalents. When participating in a 403(b) or 457 plan, you will generally invest in mutual funds (should you choose) that incorporate the risk/return profiles of one or more of these asset classes.
Asset allocation. This is the strategy of dividing your money among the three major asset classes. This helps manage risk while you pursue growth, because the three classes tend to react differently to economic conditions.
Back-end load. A fee (sales charge or load) that investors pay when selling mutual fund shares within a specified number of years, usually five to 10 years. The fee amounts to a percentage of the value of the share being sold.
Beneficiary(ies). The beneficiary or beneficiaries you name when you enroll in your 403(b) or 457 plan are the person or persons who will receive the balance of your account, if any, upon your death.
Bonds. Bonds are loans to a government, state, municipality, agency, institution or corporation. Typically, in return for the loan, the bond issuers agree to pay interest to the bondholder and pay back the principal (the amount paid for the bond) at the end of the bond's term (maturity). With zero-coupon bonds, however, no interest is paid. Instead, the bond is purchased at a discount from its face value to be redeemed at full value at maturity.
Cash equivalents. These are liquid investments (easily sold and converted to cash) that have little or no change in underlying price. Examples are money market or stable value funds.
Compounding. With compounding, earnings on the account (which can be any combination of interest, dividends and capital gains) are added to the principal, increasing the base upon which subsequent returns are earned.
Contingent deferred sales charge (CDSC). A fee (sales charge or load) that mutual fund investors pay when selling Class-B fund shares within a specified number of years of the date on which they were originally purchased. Also known as a "back-end load" or "sales charge".
Contribution. This is the amount of money, or percentage of your pay, that you put toward your 403(b) or 457 plan through a salary reduction agreement. The contribution is also sometimes called a deferral.
Defined benefit plan. The traditional pension plan, where the employer and employee make contributions, but the benefit is guaranteed and based on a formula that is consistently applied to all participants in the plan.
Defined contribution plan. This is a plan, like your 403(b) or 457 plan, in which you (the participant) make contributions. The account balance is dependent on the amount contributed and the performance of the investments chosen by the participant.
Distribution. A distribution occurs when you start taking money from your 403(b) or 457, either as a lump sum or in a series of periodic payments. These distributions are generally taxed at ordinary income tax rates. Early nonqualified distributions from your 403(b) plan may be subject to a 10% tax penalty (does not apply to 457 plans).
Diversification. This investment strategy is a step beyond asset allocation. It means to spread your investments among not only the three asset classes, but also among different investments within those classes. In this way, you avoid letting any single investment have an outsized impact on your portfolio. Note, however, that diversification does not guarantee a profit or protect against loss in a declining market.
Dividend. A dividend is a share of the company's earnings that is paid out to stockholders. When you receive dividends within your 403(b) or 457 plan account, they are reinvested automatically for you.
Dollar-cost averaging (also called systematic investing). With this investment strategy, you invest the same amount of money on a regular basis, regardless of what the market is doing. In this way, you help remove emotional decisions from your investment strategy and decrease the impact that timing of the purchase has on your investments, which could be positive or negative. By contributing regularly to your 403(b) or 457 plan, you are taking advantage of dollar-cost averaging. Dollar-cost averaging cannot guarantee a profit or protect against loss in a declining market.
Dow Jones Industrial Average (DJIA). The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.
Equities. Stocks or any other securities representing an ownership interest.
Fiduciary. A person legally and/or ethically obligated to act in the best interests of another party. The fiduciary manages the assets for the benefit of the other person rather than for his or her own profit.
Financial Industry Regulatory Authority (FINRA). A regulatory body created after the merger of the National Association of Securities Dealers and the New York Stock Exchange's regulation committee. FINRA is responsible for governing business between brokers, dealers and the investing public.
Fixed annuity. This is an annuity that guarantees a minimum return for a specific period, as specified in the contract with the insurance company.

Front-end load. A commission or sales charge applied at the time of the initial purchase of an investment, usually mutual funds and insurance policies. It is deducted from the investment amount and, as a result, it lowers the amount of the initial investment.
Growth stock. Shares of a firm whose business generates significant positive cash flows or earnings, which increase at significantly faster rates than the overall economy. Growth companies tend to reinvest earnings into the company and generally pay few or no dividends to shareholders.
Guaranteed return annuity (GRA). With a guaranteed return annuity, you will not receive less than 100% of your investment. However, the rate of interest is generally lower than for annuities where the return is not guaranteed but linked to the annuity issuer's usage of the money.
Index fund. A type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index (S&P 500). Index funds are considered passively managed funds because investments typically change only when the investments that make up the index they are tracking change.
Individual retirement account (IRA). This is a personal retirement account that you can get through a bank, credit union or brokerage account. You may open an IRA even if you have a defined benefit and/or defined contribution plan at work.
Liquidity. The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold, are known as liquid assets.
Market value adjustment (MVA). Increase or decrease in the surrender charge of the life insurance policy or annuity contract depending on the current financial markets. The cash value is adjusted upward if the policy interest rate is greater than the current interest rate on new money and thus, if interest rates decline after the insurance policy or annuity contract purchase date, the surrender charge becomes less than that exhibited. Conversely, the cash value is adjusted downward if the policy interest rate is less than the current interest rate on new money and thus, if interest rates rise after the insurance policy or annuity contract purchase date, the surrender charge becomes greater than that exhibited.
Mutual fund. A mutual fund pools money from many investors to purchase assets such as stocks, bonds, cash equivalents or some combination that is consistent with the fund’s investment objective.
Portfolio. Your 403(b) or 457 plan portfolio is the collection of investments you have in your account. You may also have an investment portfolio outside your employer-sponsored retirement plan.
Principal. This is the amount of money you invest, before earning any interest or dividends.
Prospectus. The prospectus is the legal document that describes a mutual fund’s objectives, types of investments and major holdings, risks, fees and management style. It is important to read the prospectus before investing to see if the fund is appropriate for your goals, timeline and risk tolerance.
Re-allocation. Re-allocation occurs when you change your contribution strategy based on a change in your goals, timeline or risk tolerance. For example, you may decide that, as you near retirement, you want to re-allocate your contributions from 70% in a stock fund and 30% in a bond fund to 50% in a stock fund and 50% in a bond fund.
Rebalancing. This is the act of returning your investments to your original asset allocation if it has changed due to market performance.
Recordkeeper. In a retirement plan, an administrator that provides accounting, participant reports, statements, etc.
Stable value investments. These types of investments are considered lower risk than stocks, and are generally high-quality, short-maturity bond funds that offer a steady investment value through the use of an insurance contract. Stable value funds typically stress preservation of capital and provide a steady stream of income.
Standard & Poor’s 500 Index (S&P 500) . An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the universe of large capitalization stocks.
Stocks. Shares in the ownership of a company are called stocks or equities. You can buy shares of stock in an individual company or through investment in a stock mutual fund.
Surrender fee. A charge levied against an investor for the early withdrawal of funds from an insurance or annuity contract, or for the cancellation of the agreement. Surrender fees act as an economic incentive for investors to maintain their contract, and they allow the insurance company to have reasonable expectations for the frequency of early withdrawals.
Tax deferral. The major benefit of traditional 403(b) and 457 plans, it allows funds within the plan to grow without being reduced each year by taxes. Taxes are paid at ordinary income tax rates when distributions begin at retirement.
Third-party administrator (TPA). Districts may hire a TPA to handle 403(b) and 457 Plan administrative duties including salary remittance and other compliance duties.
Value stock. Securities whose shares appear underpriced by some form(s) of fundamental analysis. Such securities may be stock in public companies that trade at discounts to book value or tangible book value, have high dividend yields, have low price-to-earning multiples or have low price-to-book ratios.
Variable annuity. This is an annuity (contract with an insurance company) in which the performance of investments in a subaccount determines the return.
Volatility. This is the fluctuation in prices of an investment over short periods of time.