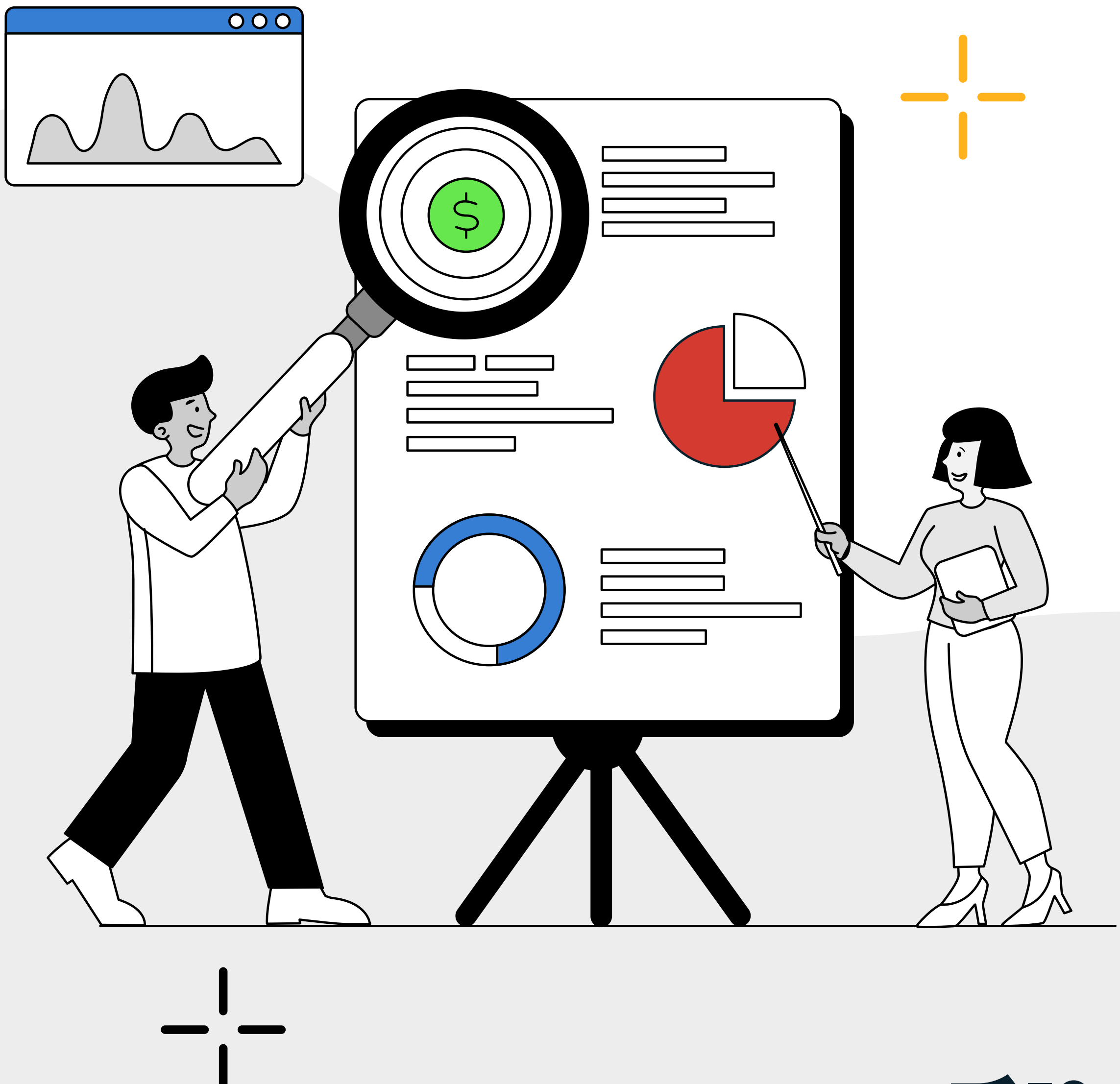
Glossary of Retirement and Investment Terms



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Glossary of Terms

Breaking Down Benefits: Essential Financial Terms Every Employee Should Know

How confident do you feel about your financial future? Retirement plans, investment options, and finance buzzwords can feel like trying to read a map in a foreign language. It's there to help, but it can feel confusing and overwhelming.

But here's the thing. Financial literacy isn't just for Wall Street pros. It's a game changer for everyone. Those who want to make the most out of their benefits, grow their savings, and plan confidently for their future. The key is to break down the jargon into simple, clear terms that actually make sense.

In this guide, we're making financial wellness approachable by ditching complex lingo and focusing on the essential terms all employees should know to take control of their financial future.

Essential Terms That Build Financial Wellness

Financial wellness goes far beyond earning a paycheck. It means making smart decisions with your money that will take care of you now and in the future. Understanding is the first step to taking advantage of them.

But financial jargon can be confusing. And confusion can lead to disengagement. Let's avoid that: here are some clear definitions of the terms you need to know.

Retirement 101

With financial uncertainty on the rise, providing clear guidance on retirement savings is more important than ever. Here are the core terms employees should know when it comes to all things retirement.

401(K) AND 403(B)

- A **401(k)** is a retirement savings plan offered by employers.
- A **403(b)** is a similar plan but for employees of nonprofits, schools, and some government organizations.

Often, employees who contribute a portion of their paycheck to one of these plans do so with pre-tax dollars. This money isn't taxed until it's withdrawn in retirement.

Example: If someone contributes $100 per paycheck to a traditional 401(k), that $100 is deducted before taxes, reducing their taxable income.

Pro tip: We all love free money. Have you taken advantage of matching contributions from your company. The goal should always be to contribute enough to get the maximum match amount and claim that free cash!

IRA (TRADITIONAL AND ROTH)

An Individual Retirement Account (IRA) is another way to save for retirement. There are two main types, and understanding how they're different is a must.

- A **Traditional IRA** allows for tax-deductible contributions. Withdrawals in retirement are when taxes are collected.
- A **Roth IRA** collects contributions after dollars are taxed. Those who withdraw from this account in retirement enjoy tax-free money. This includes investment growth.

Pro tip: A Traditional IRA makes more sense if an employee expects to be in a lower tax bracket in retirement. A Roth IRA could be better if they think they'll be in a higher tax bracket. Traditional IRAs tend to be more set it and forget it, but Roth IRAs can have a higher ceiling—the growth of your investments comes back to you tax free.

VESTING

While employer contributions (that free money we all love) are a big draw, be sure employees clearly understand your company's vesting schedule. Vesting simply refers to how long an employee needs to stay with a company to own employer contributions to their retirement plan fully.

Here are some possibilities:

- **Immediate vesting** means employees own their employer contributions right away.
- **Graded vesting** means ownership increases over time. An example is 20% per year for five years.
- **Cliff vesting** is when employees need to stay a set number of years before they own 100% of the contributions.

Example: If an employer offers a 401(k) match with a five-year cliff vesting schedule and an employee leaves one day before their fifth anniversary, they forfeit all employer contributions.

PENSION PLANS

A pension plan is a retirement plan that employers provide employees. It's a fixed, regular payment in retirement based on salary and years of service. Unlike a 401(k), employees don't directly contribute to the pension plan. Employers fund and manage it. While pensions were once the backbone of retirement income, they are now mostly limited to government and unionized positions.

Example: A retired firefighter who receives a set monthly check for life is on a pension plan.

Investing Essentials

Understanding retirement accounts is the first step to investing in them. The investing concepts below will help you make informed choices about how to grow your savings over time.

STOCKS AND BONDS

These are the bread and butter of investing.

- **Stocks** represent ownership in a company. When employees buy stocks, they own a piece of the business. They may earn more if the stock price increases or through dividends (a share of the company's profits).
- **Bonds** are like loans employees make to a company. In return, they receive interest payments over time plus their original investment.

Example: Investing in Apple stock means you own a piece of Apple. Buying a U.S. Treasury bond means lending money to the government in exchange for regular interest payments.

MUTUAL FUNDS VS. ETFs

Mutual funds and exchange-traded funds (ETFs) allow you to invest in a mix of stocks, bonds, or other assets, thereby diversifying your investments.

- Professionals actively manage **mutual funds**. They're typically bought and sold at the end of a trading day.
- **ETFs** trade like stocks throughout the day. Lower fees make them appealing.

Example: A 401(k) plan might offer a mutual fund that invests in a mix of U.S. and international stocks. An employee who wants to dabble in low-cost investing might choose an ETF that tracks the S&P 500.

DIVERSIFICATION

This is the "don't put all your eggs in one basket" approach to investing. Spreading investments across assets (stocks, bonds, real estate, etc.) reduces risk. If an investment underperforms, the loss doesn't have as much of an impact as in other investment scenarios.

Example: If employees invest too heavily in a single industry, like technology, their portfolio may suffer if that industry declines. Encourage diversification to minimize risk.

DOLLAR-COST AVERAGING

Dollar-cost averaging (DCA) is a set-it-and-forget-it investment strategy. Employees invest a fixed amount of money at regular intervals, regardless of market conditions. This approach takes the guesswork out of timing investments.

Example: An employee who contributes $300 to their 401(k) every payday is practicing dollar-cost averaging.

Plant the Seeds for Financial Growth

Beyond just savings, employees can take strategic steps to grow their wealth. Here are some key concepts to maximize your financial potential.

COMPOUND INTEREST

Let your money work for you is a saying made for compound interest. Savings and investments grow faster over time because they earn interest on the original contribution and accumulated interest. Think of the snowball effect.

Example: If you invest $1,000 at a 7% annual return, you'll earn $70 in interest the first year. In year two, you'll earn interest on $1,070. Over decades, small contributions can turn into big savings.

TAX-ADVANTAGED ACCOUNTS

We all want to keep more of what we save. Accounts like health savings accounts (HSAs) and flexible spending accounts (FSAs) allow for tax-free savings for medical expenses.

- **HSA:** These accounts are perfect for those with high-deductible health plans. HSAs allow tax-free contributions, tax-free investment growth, and tax-free withdrawals for medical expenses. Any unused money rolls over each year.
- **FSA:** Also funded with pre-tax dollars, FSAs lower taxable income, but generally need to be used within the year.

Example: An employee who sets aside $2,000 in an HSA for future healthcare costs saves on taxes.

EMPLOYER STOCK OPTIONS

Some companies offer stock-based compensation. This can be very appealing with the right company.

- **Restricted stock units (RSUs)** are company shares given to employees that vest over time. Once they're vested, the employee owns the shares outright.
- **Stock options** let employees buy company stock at a set price. If they stay with the company, they'll fully own their shares after a set time.

Example: You receive 1,000 RSUs that vest over four years. If you stay with the company, you'll fully own the shares at that time.

ROLLOVER IRA

When an employee changes jobs, they have the option to move their 401(k) savings into an IRA instead of leaving it behind. This keeps retirement funds growing without penalties.

Pro tip: Rather than cashing out a 401(k), which triggers taxes and penalties, an employee rolls it into an IRA to continue tax-deferred investing.

Protecting Your Finances

Growing wealth is important to your future. But protecting it is just as critical to overall financial wellness. These concepts help employees prepare for the unexpected, while maintaining long-term financial stability.

EMERGENCY FUND

A financial safety net is a luxury for some. Unexpected expenses like medical bills, car repairs, or a job loss can be terrifying if there isn't a nest egg built up. Experts recommend keeping three to six months' worth of savings in an account.

It's not always easy to envision how to save for emergencies. Having a printable resource can help ease the planning of building an emergency fund.

Example: If monthly expenses total $3,000, an emergency fund of $9,000-$18,000 should be in an account that is easily accessible.

CREDIT SCORE

Your financial reputation is wrapped up neatly in this three-digit number. Loan approvals, interest rates, housing applications, and even some job opportunities can all be affected by this number. Scores range from 300 to 850, and, the higher the number is, the better.

Key factors that impact credit scores:

- **Late or missed payments** lead to lower scores
- **Using more than 30% of available credit** can negatively impact scores
- **Older accounts** help improve scores
- **Too many applications** for new credit can lower your score

Example: An employee with a high credit score may qualify for a mortgage with a lower interest rate.

IDENTITY-THEFT PROTECTION

Identity theft occurs when someone uses another person's financial or personal information without permission, leading to fraud and financial loss.

You can protect yourself by:

- Changing passwords regularly
- Enabling two-factor authentication
- Keeping an eye on your credit reports
- Monitoring calls and emails requesting financial information

Example: If fraudulent activity is detected, credit is frozen. This can prevent identity thieves from opening accounts in your name.

Quick Tips for Employees: Small Steps That Lead to Big Financial Wins

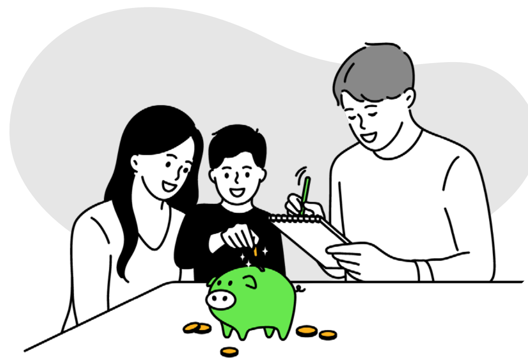
Taking control of finances doesn't have to be overwhelming. Small, consistent changes can lead to improved financial wellness. Here are a few low-pressure ways to get started.

1

START SMALL WITH INVESTING

Even small contributions can make a big impact over time, thanks to compound interest. Financial experts don't need to enter the chat to get started. Just set up automatic contributions to a 401(k), IRA, or HSA, and you'll be on your way.

Action step: Contribute at least enough to a 401(k) to get the full employer match. Get that free money! If that feels like too much, start with 1% per paycheck and increase it over time.



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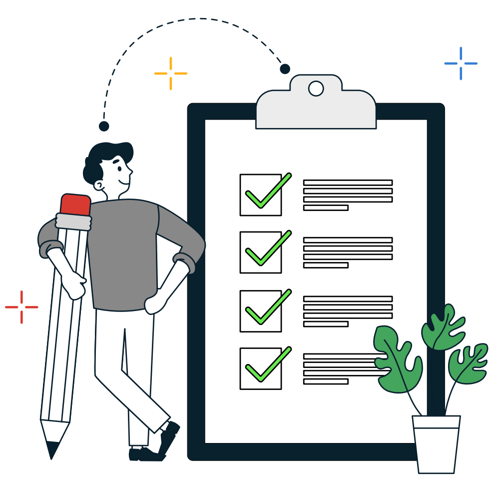
EMERGENCY FUND BEFORE INVESTMENT RISKS

Investing is important. Having a financial safety net ranks higher. Focus on building at least three months' worth of essential expenses before throwing money at risky investments.

Action step: Set up an automatic transfer of $25 per paycheck into a high-yield savings account to grow an emergency fund over time.



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MAKE THE MOST OF EMPLOYER BENEFITS

Many employees aren't aware of all of the financial wellness benefits available to them. HR teams are there to bridge this gap. Don't leave valuable perks on the table.

Action step: Check if your employer offers HSA contributions, student loan repayment assistance, or financial wellness resources. It's all about extra savings and support.

Building a Strong Financial Future

Financial wellness isn't about knowing everything. Focusing on taking small, smart actions that add up over time is what matters. From setting up a 401(k) to understanding what vesting actually means, every step forward counts towards the end goal of financial wellness.

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