401(k) Plan: An employer-sponsored, salary reduction and qualified retirement plan that allows employees to defer paying current federal income taxes on a portion of their annual compensation. Contributions and earnings grow tax-deferred until withdrawn. Withdrawals are taxed at the employee's income tax rate at the time of withdrawal.

403(b) Plan: A salary reduction plan for employees of nonprofit organizations and government entities such as schools, hospitals, and educational organizations. Similar to the operation of a 401(k), contributions and earnings are tax-deferred until the money is withdrawn from the plan.

529 Plan: A tax-advantaged education savings plan operated by a state or educational institution. These plans are categorized as either prepaid or savings, and each has separate characteristics.

Accrued Interest: Interest that accumulates on the unpaid principal balance of a loan.

Adjusted Gross Income (AGI): All taxable income less IRS-allowable adjustments to income. This figure is from U.S. IRS tax forms.

Administrator: Someone appointed by a court to settle an estate when there is no will.

After-tax Return: The return from an investment after the cost of taxes has been recorded.

Amortization: The process of gradually repaying a loan over an extended period of time through periodic installments of principal and interest.

Annuity: An insurance-based contract that provides future payments at regular intervals in exchange for a lump-sum premium paid when the annuity is purchased. It's a strategy for lifetime income in retirement.

Asset: Anything owned that has monetary value.

Asset Allocation: An ongoing process of balancing assets within a portfolio to limit risk.

Award Letter: An official notification from a college's financial aid office listing all the financial aid awarded to the student. The award letter will include information about the cost of attendance and terms and conditions for the financial aid.

Beneficiary: The person or party named by the owner of a life insurance policy or investment accounts to receive the proceeds in the event of the owner's death.

Capital Gain or Loss: The difference between the sales price and the purchase price of a capital asset. When that difference is positive, the difference is referred to as a capital gain. When the difference is negative, it is a capital loss.

Cash Equivalents: Short-term investments such as U.S. Treasury securities, certificates of deposit, and money market fund shares, that can be readily converted into cash.

Cash Value: The savings element of a permanent life insurance policy, which represents the policy owner's interest in the policy.

CERTIFIED FINANCIAL PLANNER™ Practitioner: A credential granted by the Certified Financial Planner Board of Standards, Inc., to individuals who complete a comprehensive curriculum in financial planning and ethics. CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame logo)® are certification marks owned by the CFP Board. These marks are awarded to individuals who successfully complete the CFP Board's initial and ongoing certification.

Certified Public Accountant (CPA): A license granted by a state board of accountancy to someone who has passed the Uniform CPA Examination, administered by the American Institute of Certified Public Accountants, and has fulfilled that state's educational and professional experience requirements for certification.

Coinsurance or Co-payment: The amount an insured person must pay for a covered medical and/or dental expense if his or her insurance doesn't provide 100 percent coverage.

Commodities: Grains, food products, livestock, oils, and metals that are traded on national exchanges. These exchanges deal in both "spot" trading for current delivery and "futures" trading for delivery in future months.

Common Stock: A unit of ownership in a corporation. Common stockholders participate in the corporation's profits or losses by receiving dividends and capital gains or losses in the stock's share price.

Compounding: Earning interest not only on the original principal amount, but also on accumulated prior interest.

Consolidated Omnibus Budget Reconciliation Act (COBRA): COBRA is a federal law requiring employers with more than 20 employees to offer terminated or retired employees the opportunity to continue their health insurance coverage for 18 months at the employee's expense. Coverage may be extended to the employee's dependents for 36 months in the case of a divorce or death of the employee.

Cosigner: A person who signs a promissory note in addition to the borrower and is responsible for the obligation if the borrower does not pay.

Cost Basis: The tax cost of securities, which determines the profit when sold.

Creditworthy: An individual with no negative credit history per the criteria established by the lender.

Current Yield: The ratio of the coupon rate on a bond to the dollar purchase price expressed as a percentage. So if you pay par or 100 cents on the dollar for your bond, and the coupon rate is 6 percent, the current yield is 6 percent. However, if you pay 97 cents for your 6 percent bond, the current yield would be 6.186 percent (0.6 divided by 97). If you paid 102 cents for a 6 percent bond, the current yield would be 5.88 percent (0.6 divided by 102).

Deduction: An amount that can be subtracted from gross income, from a gross estate, or from a gift, thereby lowering the amount on which tax is assessed.

Defined Benefit Plan: A qualified retirement plan under which a retiring employee will receive a guaranteed retirement fund, usually payable in installments. Annual contributions may be made to the plan by the employer at the level needed to fund the benefit. The annual contributions are limited to a specified amount, indexed for inflation.

Defined Contribution Plan: A retirement plan under which the annual contributions made by the employer or employee are generally stated as a fixed percentage of the employee's compensation or company profits. The amount of retirement benefits is not guaranteed; rather, it depends upon the investment performance of the employee's account.

Disclosure Statement: Statement of the total cost and amount of a loan, including the interest rate and any additional finance charges.

Diversification: Investing in different companies, industries, or types of assets to reduce risks in an investment portfolio.

Dollar-cost Averaging: Periodic purchases of stocks or other investments that in the best-case scenario allows investors to register investment gains as prices head up and shield themselves from greater risk as investments head down.

Employee Retirement Income Security Act (ERISA): ERISA is a federal law covering all aspects of employee retirement plans. If employers provide plans, they must be adequately funded and provide for vesting, survivor's rights, and disclosures under federal law.

Employee Stock Ownership Plan (ESOP): A defined contribution retirement plan in which company contributions must be invested primarily in qualifying employer securities.

Estate Tax: Upon the death of a decedent, federal and state governments may impose tax on the value of an estate left to heirs.

Executor: Someone designated in a will or by the probate courts to carry out the wishes of someone who has died.

Expected Family Contributions (EFC): The amount a family is expected to contribute to a student's education. EFC is calculated based on family earnings, net assets, savings, size of family and number of family members in college.

Financial Aid: College financial assistance in the form of scholarships, grants, work-study and loans for education.

Free Application for Federal Student Aid (FAFSA): The form that must be completed by students and parents applying for Federal Title IV student aid. All parents should consider filling out this form even if they have no immediate need for financial aid, because they may need it later if there is a family financial emergency.

Gift Aid: College financial aid, such as grants and scholarships, which don't need to be repaid.

Gift Taxes: A federal tax levied on the transfer of property as a gift and paid by the donor. The first $13,000 a year offered by the donor to recipient is tax-exempt.

Grants: College financial aid awards that do not have to be repaid. Grants are available through the government, state agencies and colleges.

Individual Retirement Account (IRA): A personal tax-deferred investment account to save for retirement. Contributions to a standard IRA may be deductible, and investments-including earnings and gains-generally are not taxed until distributed to you. Contributions to a Roth IRA are not deductible, but qualified distributions are not taxable.

Inflation: An increase in the price of products and services over time. The government's main measure of inflation is the Consumer Price Index.

Interest Rate: The cost of borrowing money, expressed as a percentage of the amount borrowed for a period of time, usually one year.

Intestate: The condition of an estate left by a decedent without a valid will. State law then determines who inherits the property or serves as guardian for any minor children.

Joint Tenancy: Co-ownership of property by two or more people in which those who survive one of the owners automatically assume ownership of a decedent's interest.

Keogh Plan: A retirement plan designed for self-employed individuals that allows up to $44,000 of self-employed income, as of 2006, to be deducted from compensation and set aside into the plan.

Liability Insurance: Insurance coverage that offers protection against claims resulting from the finding that a property owner has caused bodily injury or property damage to another party.

Living Trust: A trust created by a person during his or her lifetime.

Load: A sales or redemption charge, usually imposed by a mutual fund.

Load Fund: A mutual fund that carries a sales charge.

Lump-sum Distribution: The disbursement of the entire value of a profit-sharing plan, pension plan, annuity, or similar account to the account owner or beneficiary. Lump-sum distributions may be rolled over into another tax-deferred account.

Marginal Tax Bracket: The range of taxable income that is taxable at a certain rate. Currently, there are six marginal tax brackets-10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent.

Marital Deduction: A tax code provision that allows all assets of a deceased spouse to pass to the surviving spouse free of estate taxes. It's also called the unlimited marital deduction.

Money Market Fund: A mutual fund that specializes in investing in short-term securities.

Municipal Bond: A debt security issued by municipalities. The income from municipal bonds is usually exempt from federal income taxes and can be exempt from state income taxes in the state in which the municipal bond is issued.

Municipal Bond Fund: A mutual fund that specializes in investing in municipal bonds.

Mutual Fund: A collection of stocks, bonds, or other securities purchased and managed by an investment company with pooled funds from many investors.

Net Asset Value: The price at which a mutual fund sells or redeems its shares. The net asset value is calculated by dividing the net market value of the fund's assets by the number of outstanding shares.

No-load Fund: A mutual fund that does not pass a sales charge along to investors.

Pell Grants: A federal college grant program that awards money you don't have to pay back solely on
demonstrated financial need to every eligible undergraduate student who hasn't already earned a bachelor's or professional degree. The amount of the Pell grant depends on financial need, college costs and whether the student is attending college full time or part time. The funds can be used for tuition, fees and living expenses.

Perkins Loans: Federally insured college loans funded by the government and awarded by the school. The loans feature a low interest rate and are repayable over an extended period.

Portfolio: All the investments held by an individual or a mutual fund.

Preferred Stock: A class of stock with claim to a company's earnings, before payment can be made on the common stock and that is usually entitled to priority over common stock if the company liquidates. Generally, preferred stocks pay dividends at a fixed rate.

Prenuptial Agreement: A legal agreement arranged before a marriage that establishes who brought what property into the marriage and how it will be divided in case of a divorce.

Prepaid Tuition Plan: A college savings plan that is guaranteed to rise in value at the same rate as college tuition. For example, if a family purchases shares that are worth half a year's tuition at a state college, they will always be worth half a year's tuition, even 10 years later when tuition rates will have doubled.

Price/earnings Ratio (P/E Ratio): The market price of a stock divided by the company's annual earnings per share, a widely regarded yardstick for investors.

Principal: The amount of money invested excluding earnings.

Probate: The court-supervised process in which a decedent's estate is settled and distributed.

Profit-sharing Plan: An agreement under which employees share in the profits of their employer.

Qualified Domestic Relations Order (QDRO): At the time of divorce, this order would be issued by a state domestic relations court and would require that an employee's ERISA retirement plan accrued benefits be divided between the employee and the spouse.

Qualified Retirement Plan: A pension, profit-sharing, or qualified savings plan established by an employer for the benefit of the employees in compliance with IRS rules.

Replacement Cost: The cost of replacing property without a reduction for depreciation. People shopping for homeowner's insurance should insist on replacement costs as a measurement for damage to their property.

Rollover: A method by which an individual can transfer the assets from one retirement program to another without the recognition of income for tax purposes. The requirements for a rollover depend on the type of program from which the distribution is made and the type of program receiving the distribution.

Roth IRA: A nondeductible IRA that allows tax-free withdrawals when certain conditions are met. Income and contribution limits apply.

Simplified Employee Pension Plan (SEP): A type of plan under which the employer contributes to an employee's IRA. Contributions may be made up to a certain limit and are immediately vested.

Spousal IRA: An IRA designed for a couple when one spouse has no earned income. The maximum combined contribution that can be made each year to an IRA and a spousal IRA is $8,000, through 2007, or 100 percent of earned income, whichever is less. This total may be split between the two IRAs as the couple wishes, provided the contribution to either IRA does not exceed $4,000.

Subsidized Stafford Loans: Need-based college loans in which interest does not accrue and payments are deferred until after students stop attending school full time.

Umbrella Policy: Umbrella coverage is insurance coverage that extends the terms of a regular insurance policy once coverage limits for the regular policy have been reached. Specifically, umbrella coverage is for people who want protection against a large jury award that is not covered in their standard policy.

Universal Life Insurance: A type of life insurance that combines a death benefit with a savings feature which accumulates tax-deferred at current interest rates. Under a universal life insurance policy, the policyholder may increase or decrease his or her own coverage under certain rules without purchasing a new policy.

Variable Universal Life Insurance: Life insurance that combines a death benefit with a savings feature that accumulates tax-deferred at current interest rates. However, under this insurance, the cash value can be placed in a variety of subaccounts with different investment objectives. Fees are charged on these subaccounts, so be careful.

Vesting: The qualification date for minimum company benefits at an assigned time in an individual's seniority with the company or organization.

Whole Life Insurance: This is a type of life insurance that features a death benefit and accumulates cash value tax-deferred at a particular interest rate. Whole life insurance is also referred to as "ordinary" or "straight" life insurance.

Will: A legal document that declares a person's wishes concerning the disposition of property, the guardianship of his or her children and the administration of the estate after his or her death.

Yield: In general, the yield is the amount of current income provided by an investment. For stocks, the yield is calculated by dividing the total of the annual dividends by the current price. For bonds, the yield is calculated by dividing the annual interest by the current price. The yield is distinguished from the return, which includes price appreciation or depreciation.