



FELICIANO

FINANCIAL GROUP

*Inspiring People*

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# 401k Resource Book

*courtesy of:*

**Feliciano Financial Group**

Feliciano Employer & Group Planning

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## Introduction to Feliciano Employer & Group Planning

A Service of Feliciano Financial Group

### Inspiring employers and employees to 'Win, Win, Win'!

*Our mission:* To inspire and motivate employers to think 'Win, Win, Win' for their employee benefits programs.

When you began your employee benefits program it was likely done to increase employee retention, provide protection and/or retirement savings for their families and to show employees you were committed to their well-being. It was an investment in your future together. But over the years your benefits program may have turned into an expense - a seemingly uncontrollable cost that is expected, not necessarily valued, by employees. We call this a lose-lose proposition. Every year, as rates go up and benefits decrease, employees are becoming less loyal, less productive and more disgruntled.

It doesn't need to be this way. Together, we can turn this lose-lose proposition into a 'Win-Win-Win' game plan!

Our focus is helping employers and employees become accountable for their benefits programs. Working together we will establish an employee benefits game plan focused on cost containment and valued benefits. We are able to do this through efficient plan design utilizing our [Bidright](#) and [Educateright](#) programs.

Employees will soon begin to take pride in their benefits program when they feel they have a winning program, one they have some control over. The most obvious results will be increased employee morale, lower turnover and increased productivity.

Our 'Win, Win, Win' promise is simply this: happy, productive employees will help make your company more successful. And successful companies help build successful communities, a place we can all be proud to live in.

*presented by:*

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## More About Feliciano Financial Group

### Inspiring people

*Our mission...* to inspire and motivate people to be proactive and live life on purpose.

Our focus is helping people and businesses be proactive with how they manage their life and their businesses. We help people discover and define what's most important about money, work and life so they can develop strategies to live their lives and manage their businesses with purpose.

We have several areas of specialization:

- ❑ **Feliciano Life Planning**  
Live Life on Purpose
- ❑ **Feliciano Employer & Group Planning**  
Win. Win. Win.
- ❑ **Feliciano Business Planning Services**  
Bridging Life & Work
- ❑ **Feliciano Insurance Services**  
Protecting Your Loved Ones



## More About The Author: Mike Noyes

### **Mike A. Noyes**

Director of Employee Benefits

Mike Noyes is the Director of Employee Benefits at Feliciano Financial Group. He concentrates on the marketing and administration of employee benefits. He has extensive managed care experience, expertise in ASO contracts, and alternately funded group insurance programs. In addition to these products, Mike has vast experience with Life, Dental, and 401(k) programs.

Prior to joining Feliciano Financial Group, Mike was a Benefits Consultant with Great West Healthcare and New England Financial. Mike's most significant contribution to his clients is his commitment to helping small to mid-sized firms get the attention and strategies usually reserved for larger companies. His philosophy is finding solutions that make sense for all, including the employer and the employee.

Mike has a B.B.A. in Finance from Southwest Texas State University. Mike lives in Tyler with his wife, Erica, and his daughter, Caroline.

## Which Type of Defined Contribution Plan?

Assuming the flexibility and cost structure of a defined contribution plan fits your needs, you still have a number of options that allow the employer to offer a solution customized to the needs of your company and your employees. The following list can help you choose the one that fits your needs best.

What type of plan?

Plan Type	Employer Contributions	Employee Contributions	Key Considerations
Money Purchase Pension	Mandatory, generally based on compensation	None	MANDATORY employer contributions (fixed amount or percentage of compensation), but larger limits than with other DC programs
Profit-Sharing	Discretionary, generally based on compensation	Generally none, but can allow up to 10% of participant compensation on an after-tax basis.	Contributions are TOTALLY discretionary (regardless of profits).
Thrift/Savings	Discretionary, generally based on employee contributions.	Yes, either matched or voluntary	Technically, a variety of either a profit-sharing or money purchase pension, with employee contribution characteristics.
401(k)	Discretionary, generally based on employee contributions.	Yes, either matched or voluntary	Employee contributions are made on a pre-tax basis (salary reduction). Loans and hardship withdrawal provisions are common to allow some access to monies prior to retirement.
403(b), or Tax-Sheltered Annuity (TSA)	Discretionary. May match employee contribution(s), or on some other basis. Generally speaking, the employer only chooses the provider and arranges for direct	Yes, primarily as a deferral of salary (pre-tax).	Variation of profit-sharing/thrift plan for employees of public schools and tax-exempt organizations. May operate much like a 401(k) plan, but by law offers only two

	deposit of contributions.		funding arrangements: an annuity contract with an insurance company, and a custodial account in mutual funds.
Stock Bonus	Discretionary, generally based on compensation	Generally none.	Like a profit-sharing plan, but with distributions in employer stock
Employee Stock Ownership Plan (ESOP)	Discretionary	Generally none.	Employer contributes shares of the company's stock to employees and, in return, gets special tax advantages and favorable financing opportunities.
Simplified Employee Pension (SEP) - IRA (see also <b>DoL site</b> )	Discretionary, operates like an Individual Retirement Account (IRA). Generally employer contributions only.	None	
SIMPLE Plan	Employer contributions (fully vested)	Yes, employee pre-tax contributions	For businesses with less than 100 employees, and with no other retirement plan
SIMPLE IRA	Employer contributions (fully vested)	Yes, employee pre-tax contributions	For businesses with less than 100 employees, and with no other retirement plan
Salary Reduction Simplified Employee Pension Plan (SARSEP)	Yes, for eligible employees.	Yes.	For years beginning after 1996, a SARSEP cannot be established. However, those initiated before then can be maintained.

## The Basics on Defined Contribution Plans

In a defined contribution, or "DC" plan, the amount of the contribution is defined by the plan. The most common DC plan is the 401(k) plan.

*"Increasingly these plans put the responsibility for investment decisions in the hands of the individual account owners"*

These contributions are invested at the direction of the employer (as in most profit-sharing plans), the employee (as in 401(k) plans) or according to the plan itself employee stock ownership plans, or ESOPs).

The employee benefits directly from any investment gains in their individual account - or suffers from any investment loss.

There is no "insurance" for these benefits, as there is with defined benefit plans.

There are many types of DC plans, including 401(k), profit-sharing, money purchase, stock bonus, and thrift and employee stock ownership.

Increasingly these plans put the responsibility for investment decisions in the hands of the individual account owners (employees).

Defined contribution plans tend to be:

- Less expensive to administer than defined benefit plans
- More valued by younger, more mobile workers
- High in demand by new employees

## 401k EGTERRA Limits

As published by the Internal Revenue Service.

	2007	2006	2005	2004	2003	2002
Elective Deferrals (401k & 403b plans)	\$15,500	\$15,000	\$14,000	\$13,000	\$12,000	\$11,000
Annual Benefit Limit	\$180,000	\$175,000	\$170,000	\$165,000	\$160,000	\$160,000
Annual Contribution Limit	\$45,000	\$44,000	\$42,000	\$41,000	\$40,000	\$40,000
Annual Compensation Limit	\$225,000	\$220,000	\$210,000	\$205,000	\$200,000	\$200,000
457 Deferral Limit	\$15,500	\$15,000	\$14,000	\$13,000	\$12,000	\$11,000
Highly Compensated Threshold	\$100,000	\$100,000	\$95,000	\$90,000	\$90,000	\$90,000
SIMPLE Contribution Limit	\$10,500	\$10,000	\$10,000	\$9,000	\$8,000	\$7,000
SEP Coverage	\$450	\$450	\$450	\$450	\$450	\$450
SEP Compensation Limit	\$225,000	\$220,000	\$210,000	\$205,000	\$200,000	\$200,000
Income Subject to Social Security	\$97,500	\$94,200	\$90,000	\$87,900	\$87,000	\$84,900
Top-Heavy Plan Key Employee Comp	\$145,000	\$140,000	\$135,000	\$130,000	\$130,000	\$130,000
Catch-Up Contributions	\$5,000	\$5,000	\$4,000	\$3,000	\$2,000	\$1,000
SIMPLE Catch-Up Contributions	\$2,500	\$2,500	\$2,000	\$1,500	\$1,000	\$500

The **Elective Deferral Limit** is the maximum contribution that can be made on a pre-tax basis to a 401(k) or 403(b) plan (Internal Revenue Code section 402(g)(1)). Some still refer to this as the \$7,000 limit (its original setting in 1987).

The **457 Deferral Limit** is a similar restriction, applied to certain government plans (457 plans).

The **Annual Benefit Limit** is the maximum annual benefit that can be paid to a participant (IRC section 415). The limit applied is actually the lessor of the dollar limit above **or** 100% of the participant's average compensation (generally the high three consecutive years of service). The participant compensation level is also subjected to the **Annual Compensation Limit** noted above.

The **Annual Contribution Limit** is the maximum annual contribution amount that can be made to a participant's account (IRC section 415). This limit is actually expressed as the lesser of the dollar limit **or** 100% of the participant's compensation, applied to the combination of employee contributions, employer contributions and forfeitures allocated to a participant's account. This limit was increased for the first time since its inception last year.

In calculating contribution allocations, a plan cannot consider any employee compensation in excess of the **Annual Compensation Limit** (401(a)(17)). This limit is also imposed in determining the Annual Benefit Limit (above). In calculating certain nondiscrimination tests (such as the Actual Deferral Percentage), all participant compensation is limited to this amount, for purposes of the calculation.

The **Highly Compensated Threshold** (section 414(q)(1)(B)) is the minimum compensation level established to determine highly compensated employees for purposes of nondiscrimination testing.

The **SIMPLE Contribution Limit** is the maximum annual contribution that can be made to a SIMPLE (Savings Incentive Match Plan for Employees) plan. SIMPLE plans are simplified retirement plans for small businesses that allow employees to make elective contributions, while requiring employers to make matching or nonelective contributions.

**SEP Coverage Limit** is the minimum earnings level for a self-employed individual to qualify for coverage by a Simplified Employee Pension plan (a special individual retirement account to which the employer makes direct tax-deductible contributions).

The **SEP Compensation Limit** is applied in determining the maximum contributions made to the plan.

**Catch up Contributions, SIMPLE "Catch up" deferral:** Under the Economic Growth and Tax Relief Act of 2001 (EGTRRA), certain individuals aged 50 or over can now make so-called 'catch up' contributions, in addition to the above limits.

EGTRRA also added the **Top-heavy plan key employee compensation limit**.

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## 2005 Retirement Plan Limits Unveiled

**October 20, 2004 (PLANSPONSOR.com) – The Internal Revenue Service on Wednesday release the cost of living adjustments applicable to dollar limitation for pension plans and other items for tax year 2005.**

Many of the pension plan limitations will change for 2005, according to the IRS, because for most of the limitations, the increase in cost-of-living adjustments met the thresholds that trigger their adjustments. Also, some limitations that are set by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) are scheduled to increase next year.

Changes include:

- Under EGTRRA, the limit under section 402(g)(1) on the exclusion for elective deferrals described in section 402(g)(3) will increase from \$13,000 to **\$14,000**. This limitation most significantly effects 401(k) plans, as well as the federal governments Thrift Savings Plans (TSP).
- Under defined benefit plans, which fall under section 415(b)(1)(A), the maximum annual benefit will increase from \$165,000 to **\$170,000**.
- The limitation for combined contribution plans under section 415(c)(1)(B) will be raised from \$41,000 to **\$42,000**.
- The annual compensation limit under Section 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from \$205,000 to **\$210,000**, while the dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is increased from \$130,000 to **\$135,000**.
- The compensation limit used in the definition of highly compensated will increase from \$90,000 to **\$95,000**.
- The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$450.

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5 year distribution period is increased from \$830,000 to \$850,000, while the dollar amount used to determine the lengthening of the 5 year distribution period is increased from \$165,000 to **\$170,000**. The limitations regarding SIMPLE retirement accounts have increased from \$9,000 to **\$10,000**.

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or 408(p) for individuals aged 50 or over is increased from \$3,000 to \$4,000, while the dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or 408(p) for individuals aged 50 or over is increased from \$1,500 to \$2,000. The IRS also stated that administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.

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## The Bottom Line

**Fiduciaries can be held legally accountable for their actions involving an employee benefit plan. Ignorance of the law, its requirements, or even the fact that you are a fiduciary will not provide a defense. You need to know if you are a fiduciary, and what the law requires - or you could wind up in jail.**

### What It Is

Any person or entity that has control over the management of an employee benefit plan or its assets is a fiduciary.

Anyone who offers investment advice regarding plan assets for a fee, or who has the authority or responsibility to do so is also considered a fiduciary.

Some positions convey an "automatic" responsibility (notably the named fiduciary, trustee or plan administrator), but the law is intentionally broad, and will be applied regardless of official titles.

An employee benefit plan must have at least one fiduciary, which is the so-called "named" fiduciary.

The plan must also have a plan "administrator" and a trustee.

There is no upper limit to how many fiduciaries a plan may have.

### Why It Matters

A fiduciary can be sued for violating, or not performing its duties appropriately.

The penalties can include:

- The Department of Labor (DoL) may assess a civil penalty of 20% of the amount payable pursuant to a court order or settlement agreement with the DoL for a breach of fiduciary duty (or your knowing participation in a violation).
- A fiduciary that willfully violates any reporting or disclosure requirement can be subject to a fine of \$5,000, imprisonment for one year, or both (in the case of a person other than an individual, the fine can be as much as \$100,000).
- Additional penalties can apply for more serious, and deliberate offenses. For example, accepting kickbacks or embezzling funds in connection with an ERISA plan is a federal crime, punishable by a \$10,000 fine, five years in prison, or both.
- The IRS also has the ability to require that a prohibited transaction be reversed, as well as to impose penalties on individuals that participated in a prohibited transaction. Another plan fiduciary, any plan participant and the labor secretary can bring a lawsuit to establish the liability of an ERISA fiduciary.

ERISA notes that in case of a breach of duty, a fiduciary:

- Shall be personally liable to make good losses to the plan
- Shall be personally liable to return any profits resulting from the breach
- May be removed as a fiduciary

A fiduciary is not liable for any breach committed before or after their tenure as a fiduciary. And liability extends only to the extent of your duties. However, the determination of your fiduciary status and a breach of that duty will be decided in federal court - after the fact.

## Fiduciaries Must...

A series of articles within ERISA forces the fiduciary to focus only on the plan participants, be prudent, diversify the plan's assets and adhere to the plan documents.

Fiduciaries must:

- » Act solely in the interests of plan participants
- » Act with care, skill, prudence, and diligence
- » Diversify plan investments
- » Act in accordance with the plan document

At all times, in every action taken on behalf of the plan, a fiduciary must act in accordance with the following demands in the Employee Retirement Income Security Act (ERISA).

### **Exclusive Benefit Rule (ERISA section 404(a)(1)(A) and 403(c))**

All actions taken by a fiduciary must be for the exclusive benefit of plan participants and beneficiaries, and with an eye toward defraying the reasonable expenses of running the plan.

*"A fiduciary must also monitor the other plan fiduciaries."*

Courts have generally recognized, however, that the fiduciary/plan sponsor may benefit from actions incidentally, so long as the primary motivation is to benefit the plan.

### **The Prudent Man Rule (ERISA section 404(a)(1)(B))**

Requires that a plan fiduciary use the "care, skill and diligence" that would be used by a reasonably prudent person familiar with "such matters."

While essentially an extension of the common law requirement of good faith in handling other people's money, it creates a "prudent expert" test that places an additional burden on the plan sponsor - to know what a person in this position of responsibility should know, rather than a reliance on the knowledge level of the general populace.

### **Diversification (ERISA section 404(a)(1)(C))**

Requires the plan fiduciary to diversify plan investments unless, under the circumstances, it is clearly not prudent to do so.

However, some "eligible individual account plans" are exempt from this requirement (ERISA 404(a)(2)), notably those designed specifically to permit investment in employer securities.

### **Compliance with Plan Documents (ERISA section 404(a)(1)(D))**

A fiduciary can/must follow the provisions of the written plan document - as long as it is consistent with ERISA. If it is not consistent, the fiduciary is expected to ignore the provision.

A fiduciary must also monitor the other plan fiduciaries. He must do this:

- at "reasonable intervals" - a formal procedure with a regular schedule for review is recommended

- in a way that is "reasonably expected" to ensure that it complies with the terms of the plan and the law

## A Fiduciary May Not...

ERISA section 406 specifically prohibits certain transactions between a plan and related parties (including a fiduciary), generally referred to as parties in interest.

**"A plan fiduciary is also not allowed to deal with plan assets in his own interest..."**

These so-called prohibited transactions include:

- the sale, exchange or lease of property;
- the lending of money or other extension of credit;
- the furnishing of goods, services or facilities; or the transfer or use of plan assets.

A plan fiduciary also is prohibited from acquiring or holding any securities issued by the plan sponsor other than "qualifying employer securities".

A plan fiduciary is also not allowed to deal with plan assets in his own interest or for his own account - nor is he/she allowed to receive any consideration for his/her personal account from a party that deals with the plan in a transaction involving plan assets.

A fiduciary is also prohibited from acting on behalf of someone whose interests are adverse to that of the plan or its participants.

## The Bottom Line on Plan Design

Just as a builder begins with a blueprint, plan design is an integral part of building a successful plan. The type of plan you choose may have a dramatic impact on the benefits received, and perceived by employees and your company as well. Choose poorly, and you could end up regretting the choices for years to come.

### What It Is

Plan design is the process of choosing the type of plan - and the array of options - that will meet the needs of your company and its employees.

*"Choose poorly, and you could end up regretting the choices for years to come"*

To do so you need to know the age and type of employees you are seeking to benefit, the financial and resource boundaries of your company, and the options that are available to you.  
Top

### Why It Matters

Making changes to an existing plan can be an expensive and time-consuming proposition - the larger the changes, the harder it is.

Furthermore, once granted, some benefits cannot simply be "taken away" or modified at a whim.

The plan document that creates the plan, and outlines its conditions is a contract - and should be viewed accordingly.

Contracts, of course, can be modified. But frequently the consent of both parties is required - and almost always the services of an attorney.

Choosing the best option requires knowing what your options are. You'll want to consider:

- Qualified versus Non-Qualified
- Defined Benefit versus Defined Contribution
- Which Type of Defined Contribution plan

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## The Bottom Line on Recordkeeping

Defined contribution recordkeeping holds it all together. Without solid accounting and reporting at the plan and participant levels, your plan suffers and so do you.

No single plan sponsor task so dramatically and immediately affects the perceptions of the plan as record-keeping. Even strong fund performance is of little value if you can't associate it with an account balance.

As a plan sponsor, you are responsible for ensuring that accurate participant records are maintained, and shared with plan participants and beneficiaries on a regular basis.

You may choose to do that yourself, or you may choose to hire the expertise of an external record-keeper, depending on your plan's requirements.

*"Make sure that the valuation fits the objectives of your plan"*

A key choice you face is the frequency of participant account valuation. While daily valuation is increasingly common, make sure that the valuation fits the objectives of your plan, the limitations of the underlying plan assets and the needs of your employees.

### What it is

"The establishment and maintenance of individual account records for all participants in the plan."

Because it involves individual account records, the function is commonly associated with defined contribution defined contribution plans, but it can apply to any benefit situation where individual account records are maintained.

In an accounting sense, the individual account balances represent plan "liabilities" that must exactly equal the plan assets. For defined contribution plans, this relationship can be expressed as follows:

### Total Participant Account Balances = Market Value of Plan Assets

At any given point in time, the market value of plan assets may require adjustment for

- Receivables - contributions, transfers and other deposits not posted to the trust at the valuation date, or
- Payables distributions, transfers and other disbursements not posted to the trust at the valuation date.

The Market Value of Plan Assets + Receivables - Payables = Adjusted Value of Plan Assets

The total adjusted value of the plan assets should always equal the adjusted participant account balances, just as a checkbook must eventually reconcile to the actual funds in a checking account.

*"No single plan sponsor task has such a dramatic and sweeping impact on the perceptions of the plan"*

Participant information is a combination of data from three basic sources:

- the employer
- the participant
- the plan itself

All three come together to create the participant account balance. These elements are all connected by some type of unique participant identifier on the recordkeeping system, generally a social security number or employee number.

The origin and quality of that data can dramatically impact the quality and/or timing of all aspects of plan administration, including plan compliance, distributions, and government reporting.

**Why It Matters**

ERISA requires that defined contribution participant accounts be updated at least once annually. The process of keeping accurate records lies with the plan sponsor, although it may be delegated, with oversight, to a third party.

To the participants, it represents the legal record of their vested accrued benefit in the plan. If incorrect, they may receive less than they are entitled to.

At best, that could result in a reprocessing of the valuation(s), with interest."

At worst, for the plan, it can mean disqualification of the plan, losing the tax benefits of the plan for both the employer and employees alike.

## The Bottom Line on DC Fees

No pun intended. The fees associated with your plan can impact your company's bottom line, the assets available to pay benefits and/or the net investment return of your participants.

You need to know how much you're paying - and for what services.

*"Make sure you are getting your money's worth"*

You can pay some of them from the assets of the plan, but may want to pay some directly.

### What It Is

Fees are generally considered to be the expenses of running your plan associated with services outside your company.

This includes investment management, plan administration and recordkeeping, transaction processing and trustee fees.

### Why It Matters

Common sense. You need to make sure you are getting your money's worth, whether you have a budget to meet, or a retirement plan to grow.

Fees paid by:

- the employer impact the organization's bottom line.
- a defined contribution plan can lower your participant returns

All of which can generate painful results.

Furthermore, as plan sponsor you have a fiduciary responsibility to administer the plan for the exclusive benefit of the participants and their beneficiaries.

This includes involvement with the current and ongoing amount of fees paid by the plan.

## Your Money's Worth - What Are You Paying For?

**Plan fees may generally be broken into four categories:**

Plan-driven charges tend to be relatively fixed - if you have a plan, you have to pay them, regardless of the size or age of your plan. However, defined benefit plans have different types of charges than defined contribution.

These might include the costs of:

- Legal fees associated with developing a plan document or a trust agreement
- Audit fees
- Actuarial fees in the case of a pension plan.

**Participant-based fees relate to the costs associated with maintaining the individual account records.**

Examples include:

- Participant recordkeeping
- Conversion charges
- Communications/Education
- Participant Advice

These days, particularly for daily valuations, the trend is to charge a flat per-participant charge, regardless of how many (or few) participants are in the plan.

Particularly for smaller plans, it is increasingly typical to assess a base charge in addition to the per participant charge.

**Asset-based fees are generally the largest plan expense.**

Fees associated with plan investments in mutual funds are netted against the fund return, and at the same rate for every dollar invested.

Other investments, including stocks, bonds, bank collective funds and real estate will generally charge a fee based on market value, but one that is tiered, depending on the total value of assets managed.

For instance, you might pay a certain rate per \$1,000 for the first \$5,000,000, and a slightly lower rate for the next \$5,000,000.

Increasingly, providers charge more for the management of more complex investments, though many banks still bundle their asset management and charge based on a consolidated fee schedule.

Trustee/custodian fees are still, generally speaking, assessed based on the market value of assets in the plan.

This is somewhat ironic, since the potential for trustee liability may actually increase with a decline in the value of the plan assets.

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Typical asset-based fees include:

- Investment Management
- Trustee Fees

**Transaction-based fees are tied to a specific type of activity, generally participant-initiated.**

While it can be difficult to project the bottom line impact of such items before the fact, these are readily passed on to the participant responsible for the activity, if the sponsor is willing, and the document allows.

Examples include:

- Participant Loans
- Participant/Beneficiary Payments
- Transaction charges

Here's how it generally breaks down:

### Fee Analysis

Plan Expense	Fees Based on...			
	Plan	Transaction	Participant	Asset
Investment Mgmt.				X
Trustee Fees				X
Participant RK			X	
Participant Loans		X		
Payments/Taxes Reporting/QDRO		X		
Discrimination Testing			X	
Audit Fees	X			
Employee Communications			X	
Legal/Plan Design	X			
Internal Staff Compensation	X			

NOTE: Some plans charge the expenses of staff dedicated to supporting the plan to the plan.

NOTE: In some smaller plans, employee communication, nondiscrimination testing and sometimes trustee fees can be flat expenses - not based on asset value or participant count.

## GLOSSARY

### 403(b) plan

The mechanism for employees of certain not-for-profit organizations to elect to defer compensation in a qualified retirement plan.

### 404(c)

A section of ERISA dealing with participant self-direction. The section has garnered much interest as a means for plan sponsors to avoid or reduce fiduciary liability for participant investment choices in a participant-directed investment plan. In order to qualify, the plan must comply with specific requirements regarding information about investment options, number and type of investment options, as well as an ability to move balances between those options on a reasonably frequent basis.

### 401(k) plan

A type of defined contribution plan in which employees may elect to make a pre-tax contribution to an employer-sponsored plan in lieu of receiving taxable income.

### 457 plan

Allows state and local government and tax exempt organizations to set up deferred compensation plans similar to a 401(k). This plan is not subject to ERISA. The funds belong to the employer, subject to the claims of the employer's general creditors.

## A

### Accrued benefit

A benefit earned by an employee through participation in a plan. In a defined contribution plan, it is the balance in the individual account at a particular time. For defined benefit plans, it generally refers to the benefit that will be provided when the participant reaches normal retirement age, as defined by the plan document.

### Active participants

Eligible individuals who have hours of service and make contributions to a retirement plan.

### Actual deferral percentage

A nondiscrimination test applied to elective contributions (most commonly employee pre-tax contributions) to determine if those contributions discriminate in favor of highly compensated employees.

### Actuarial assumptions

Assumptions made by a plan actuary in determining plan benefits for a defined benefit plan, including plan investment return, discount rate, employee turnover, retirement age, salary and life

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expectancy. These assumptions are used to determine the annual required contribution to the plan.

**Actuarial equivalent**

A term that describes a situation where the present value of two different sets of values are equal, given a specific set of actuarial assumptions. Commonly used when comparing varying optional forms of benefits under a plan.

**Actuary**

A person who is qualified by training or experience to make the necessary computations for the valuation of a pension plan.

**Administrator/plan administrator**

The person or entity charged with the responsibility of administering the terms (provisions) of the plan.

**Affiliated service group**

A group of two or more related organizations that are treated, for various employee benefit requirements, as a single employer. Employees of these affiliates are treated as though they are employed by a single employer to determine plan qualification.

**Age-weighted**

Plan in which contributions are allocated to participants on a basis that considers both age and compensation.

**Alienation**

Assignment of benefits; the voluntary partition of a participant's vested account balance between a participant and spouse in a qualified domestic relations order. With that single exception, ERISA generally prohibits alienation of a participant's benefits, including bankruptcy circumstances (see Anti-alienation).

**Allocation**

Assign, designate to appropriate person.

**Alpha**

A numerical value indicating a manager's risk-adjusted excess rate of return relative to a benchmark. Measures a manager's "value-added" in selecting individual securities, independent of the effect of overall market movements.

**Amendment**

Changes made to an existing plan.

**Annuity**

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A series of regular payments (typically monthly), generally made for the life of the participant.

**Anti-alienation**

Qualified plans that are subject to Title I; should be protected from the reach of plan participants' creditors in bankruptcy.

**Anti-cutback**

Provisions in the Internal Revenue Code that prohibit an employer from reducing accrued benefits.

**Asset reversion**

Following the termination of a single-employer, private, defined benefit pension plan, the recovery by the sponsoring employer of any pension fund assets in excess of those required to pay accrued benefits. Under current law, assets recovered through reversion are subject to regular corporate income tax and an additional excise tax.

**Audit**

To examine with the intent to verify.

**Auditor**

A certified public accountant who examines a company's books according to a set of procedures and issues a report.

**Average contribution percentage**

A nondiscrimination test applied to employer matching and employee (after-tax) contributions, to determine if those contributions discriminate in favor of highly compensated employees.

**B****Back-to-back transaction**

When a security is bought and sold in such rapid succession that the buyer has to deliver on the sale before the purchase is received.

**Bad boy clause**

Permitted forfeitures imposed because of employee dishonesty or violation of a promise not to compete.

**Basis Point**

The smallest unit used in measuring return: a basis point is one hundredth of one percent.

**Beneficial owner**

The entity which enjoys the benefits of ownership of the effected securities despite title being in the name of another entity.

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**Beneficiary/beneficiaries**

The person(s) to whom a share of a deceased participant's account balance is payable.

**Beta**

A coefficient measuring a stock's relative volatility to a market index, such as the S&P 500 Index. A manager with a Beta greater than 1.0 is more volatile than the market, while a manager with a Beta less than 1.0 is less volatile than the market.

**Blackout**

A period of time during which participants are not allowed to make changes to their 401(k) balances. This generally occurs during a conversion to a new recordkeeper, or when significant changes are being made to the plan. The blackout gives the providers time to test and validate the new platform and/or provisions.

**Bottom-up investing**

An approach to investing which seeks to identify well-performing individual securities before considering the impact of economic trends.

**Break a Trade**

To prematurely unwind a long or short position in a security with respect to the intended strategy.

**Break in service/one-year break in service**

The applicable computation period during which an employee has not completed more than 500 hours of service with the employer. Generally, no service credits or vesting accumulations occur during this period.

**Buying-in**

A buy-in occurs when a seller fails to receive securities from a counterparty on settlement date, at which time the seller may be obliged to 'buy in' the securities in the open market. More specifically, a buy-in can refer to the purchase of securities by a securities lender, using the borrower's collateral, in the event of borrower default.

**C****Cafeteria plan**

A tax qualified arrangement under which participants may elect a combination of various taxable and tax-preferred forms of compensation, often including but not limited to cash, health insurance, 401(k) plan contributions, life insurance, child care, and additional vacation days. Also called a flexible benefit plan or Section 125 plan after the section of the tax code that allows for the creation of flexible benefit plans.

**Capital gain/s**

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The amount by which shares appreciate in value.

#### Capital structure arbitrage

Investment strategy that seeks to exploit pricing inefficiencies in a firm's capital structure. Strategy will entail purchasing the undervalued security, and selling the overvalued, expecting the pricing disparity between the two to close out.

#### Career-average formula

A formula in which benefits from a defined benefit plan are calculated as a percentage of average pay received throughout a participant's entire service, (usually) multiplied by total years of service. The type of formula generally used to calculate benefit accruals in a cash balance plan.

#### Carryover of contribution

Created whenever the employer's contribution for a given year exceeded the maximum allowable deductions for that year. Allows employers to make larger contributions in earlier, more profitable years.

#### Carryover of deduction

Credit that occurs when the employer's contribution for the year was less than the maximum allowable deduction of 15% covered compensation. It enables employers to take a larger tax deduction.

#### Cash and Carry Trade

A strategy in which a futures contract is sold and a cash instrument is bought in order to profit from a price discrepancy.

#### Cash or deferred arrangement

A qualified retirement plan that allows participants to have a portion of their compensation (otherwise payable in cash) contributed pre-tax to a retirement account on their behalf (i.e., they can take cash OR defer its receipt). These arrangements are sometimes referred to as 401(k) arrangements, after the section of the Internal Revenue Code that allows for-profit private companies to sponsor them. See also salary reduction plans.

#### Cash-out

Distribution.

#### Cherry Picking

A liquidator's choosing to fulfill only these obligations of the borrower that are in the borrower's interest and default on the others.

#### Cliff vesting

Full (100%) vesting after a specified length of service with no vesting (0%) prior to that time.

**Code**

The Internal Revenue Code of 1986 as amended or replaced.

**Collectively bargained plan**

Plans that are established and maintained pursuant to a collective bargaining agreement.

**Commitment Fee**

A fee paid a lender for the exclusive use of a portfolio, whether the securities in it are borrowed or not.

**Common-law employee**

Individual who performs services for the employer in an employment relationship; partners in a partnership and sole proprietors are not included.

**Compensation**

The amount of a participant's taxable and nontaxable wages that is considered for purposes of a certain employee benefit requirement.

**Complete discontinuance**

Complete plan termination and final distribution of plan assets.

**Conduit Borrower**

An intermediary in the securities lending chain, acting as principal, which borrows securities in order to lend them at a higher spread to another borrower whose credit may not be acceptable to the original lender.

**Conduit IRA**

An individual retirement account that is established for the sole purpose of receiving a distribution from a qualified plan so that the assets can subsequently be rolled over into another qualified plan.

**Contribution**

A payment made by an employee or employer to a qualified plan.

**Controlled group**

Employees of corporations that are treated as employed by a single employer for plan qualification purposes. Certain tests must be met to qualify as one of the three types of control groups which are: 1) the parent-subsidiary controlled group, 2) the brother-sister controlled group, and 3) the combined group.

**Convertible arbitrage**

Investment strategy that seeks to exploit pricing inefficiencies between a convertible bond and the underlying stock. Manager will typically long the convertible bond and short the underlying stock.

**Corporate debt**

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Non-government-issued interest-bearing or discounted debt instrument that obligates the issuing corporation to pay the bondholder a specified sum of money, at specific intervals, and to repay the principal amount of the loan at maturity.

**Cost of Carry**

Out-of-pocket costs incurred while an investor holds a position. Costs of carry may include the interest cost of financing long positions, securities borrowing fees on short positions, and incidental expenses. Costs of carry may also refer to the net cost (negative carry) or return (positive carry) on a position when its yield is taken into account as well.

**Cost-of-living adjustment (COLA) provision**

Provision for the adjustment of payment designed to offset changes in the cost of living, usually as measured by the consumer price index.

**Credit Risk**

A counterparty or his agent (usually a bank, primary or secondary broker or CSD) fails to pay what he owes or fails to deliver the assets he promised.

**Cross-tested**

A test for qualified plans with respect to the equivalent amount of benefits to determine that the plan does not discriminate in favor of highly compensated employees.

**Custodial account**

An account established for the safekeeping of plan assets, but with no discretion or responsibility for managing those assets.

**D****Daylight Exposure**

Intra-day settlement risk, i.e., the risk that in the time between delivery of the securities and receipt of collateral (or vice versa) one counterparty to a securities lending transaction will go bankrupt.

**Debt**

General name for bonds, notes, mortgages, and any other forms of paper evidencing amounts owed and payable on specified dates or on demand.

**Dedicated Loan Broker**

A separately-capitalized company engaged only in the business of intermediating as principal in securities lending transactions.

**Deduction**

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Something that may be subtracted from taxable income.

Deferred compensation

The portion of the participant's total compensation which has been contributed to the plan.

#### Defined benefit

A defined benefit plan pays benefits based on a specific (defined) formula. The benefit is defined by the terms of the plan. In theory, what you "know" at a given point is the benefits due, based on that formula (though that may be easier said than done). Simplistically, it is what has traditionally been called a "pension" plan. The benefit is generally not expressed as a specific amount, but as a formula used to calculate that benefit. Typically, benefits paid will depend on three factors: age, service, and compensation. Benefits paid may be Social Security benefits, and may or may not be adjusted for subsequent cost-of-living adjustments, based on the terms of your plan. These plans consider years of service by the employee, generally providing greater benefits the longer an employee works for a particular employer.

#### Defined contribution

In a defined contribution plan, the amount of the contribution is defined by the plan rather than the benefit. In other words, you "know" how much goes into the plan (or at least the formula for determining it), not the benefits that may eventually be paid out. A defined contribution plan has individual accounts for each participant in the plan, another key difference from defined benefit plans. Also, both employer and/or employees may contribute to a DC plan (employee contributions to defined benefit plans are rare). These contributions are invested at the direction of the employer (as in most profit-sharing plans), the employee (as in 401(k) plans) or according to the plan itself (employee stock ownership plans, or ESOPs). The employee benefits directly from any investment gains in the individual account -- or suffers from any investment loss. There is no "insurance" for these benefits, as there is with defined benefit DB plans.

#### Definitely determinable

A pension plan must provide for the payment of definitely determinable benefits to employees upon retirement or over a period of years after their retirement, or to their beneficiaries -- benefits to be determined without regard to the employer's profits. Benefits actually payable need not be definitely determinable provided the contributions can be determined actuarially on the basis of definitely determinable benefits.

#### DEFRA

Deficit Reduction Act of 1984.

#### Department of Labor

The non-tax (regulatory and administrative) provisions of ERISA are administered by the Department of Labor. The DoL issues opinion letters and other pronouncements, and requires certain information forms to be filed.

#### DeskRate

An expression for the 'normal' or standard securities lending fee applicable before any special circumstances are taken into account.

#### Determination letter

Letter issued by the IRS District Director's office determining that a plan submitted to it meets (or does not meet) the requirements for qualification.

**Direct Lender**

An institutional lender that negotiates securities loans directly with the borrower and makes its own decisions regarding who to lend to, what to lend, and what collateral to accept.

**Direct transfer**

A distribution to an employee made in the form of a direct trustee-to-trustee transfer from a qualified retirement plan to an eligible retirement plan.

**Disability**

Inability to pursue an occupation because of physical or mental impairment.

**Disqualified person**

A person who, because of his or her relationship with the plan (e.g., as a fiduciary, provider of services, or the plan sponsor) is prohibited from entering into certain transactions with the plan.

**Disqualified, disqualify**

Loss of qualified (tax-favored) status by a plan, generally resulting from operation of the plan in a manner that is contrary to the provisions of the plan or that discriminates against rank-and-file employees. A disqualified plan must disgorge its assets, creating tax consequences for both the sponsoring company and participants.

**Distressed securities investing**

Investment strategy focusing on troubled or restructuring companies at deep discounts through stocks, fixed income, bank debt or trade claims. Seeks to exploit possible pricing inefficiencies caused by the lack of large institutional investor participation.

**Diversification**

ERISA imposes a duty that fiduciaries diversify plan investments to avoid the risk of losses -- unless circumstances make it imprudent to diversify. This rule is aimed toward minimizing investment risks by investing in many different types of vehicles. Diversification is often referred to as "not putting all your eggs in one basket."

**Domestic relations order (DRO)**

Judgment, decree, or court order (including approval of a property settlement agreement) made pursuant to a state domestic relations law (including a community property law) that relates to the provision of child support, alimony payments, or marital property rights to an alternate payee.

**E****Early distribution penalty**

A 10% penalty assessed on distributions received from a qualified plan before certain conditions are met (generally before the participant attains age 59 1/2).

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**Early retirement**

Provision made in a retirement plan to allow employees who have met certain conditions, such as length of service and specified age, to retire prior to their regularly scheduled retirement age. In general, in case of such early retirement, the benefits which a participant can expect to receive from the plan will be less than those offered at full retirement age.

**Education IRA**

A type of Individual Retirement Account created to pay the higher education expenses of an IRA beneficiary. The IRA contributions are nondeductible, but accumulated earnings on those contributions are nontaxable.

**Elective deferral, salary reduction**

A contribution made to a 401(k) plan by the employer on an employee's behalf pursuant to the employee's cash-or-deferred election.

**Eligibility**

Any employee who is eligible to become a participant in a plan pursuant to the terms of the plan document.

**Emerging markets investing**

A generally long-only investment strategy which entails investing in geographic regions that have undeveloped capital markets and exhibit high grow rates and high rates of inflation. Investing in emerging markets can be very volatile, and may also involve currency risk, political risk, and liquidity risk.

**Employee Retirement Income Security Act of 1974 (ERISA)**

A federal law governing the management of employee benefit plans. The act's regulatory reach extends to most aspects of employee benefit trust administration.

**Employee stock ownership plan (ESOP)**

A profit-sharing, stock bonus or money purchase pension plan in which the plan assets must be invested primarily in stock of the employer (company stock). An ESOP may borrow from the employer, or use the employer's credit to acquire company stock (a leveraged ESOP).

**Employer real property**

Real property (and related personal property) that is leased to an employer of employees covered by the plan, or to an affiliate of such employer. For purposes of determining the time at which a plan acquires employer real property for purposes of this section, such property shall be deemed to be acquired by the plan on the date on which the plan acquires the property or on the date on which the lease to the employer (or affiliate) is entered into, whichever is later.

**Entitlements**

Dividends, interest, and other distributions to which a lender of securities is entitled, even when the securities are on loan.



**Entrance frequency**

Frequency of limited partnership's shares offerings.

**Entry date**

The date on which an employee joins the plan. **Excess aggregate contribution:** The excess of the total amount of employee and matching contributions made on behalf of highly compensated employees (HCEs) in a plan year over the maximum allowed under the ACP test.

**Equalization amounts**

Distribution to limited partnership interests according to highwater provisions, to properly account for performance-based fees, which may differ among investors, depending on the investor's entry points into a fund.

**Equity market neutral investing**

Equity investing on both the long and short side, with equal dollar amounts. Will attempt to neutralize market risk, and isolate a manager's alpha, to achieve absolute returns.

**European equity hedge**

Hedged European equity investing on both the long and short side. Although generally directional in nature, will attempt to hedge out some market risk, and achieve some level of absolute return objectives.

**Event driven investing**

Investment strategy seeking to identify and exploit pricing inefficiencies that have been caused by some sort of corporate event, such as a merger, spinoff, distressed situation, or recapitalization.

**Ex Date**

Date beginning on which a stock is sold without the right to receive the dividend.

**Excess contribution**

The excess of the elective contributions made to a 401(k) plan on behalf of highly compensated employees (HCEs) for the plan year in excess of the maximum allowed under the ADP test.

**Excess deferral**

An employee's elective contributions for the taxable year in excess of the current deferral limit (originally \$7,000, indexed for inflation -- now \$10,000).

**Excess retirement accumulation**

A tax of 15% imposed on large account balances at the point of distribution.

**Excise tax**

A nondeductible tax imposed on the occurrence of an event.



**Exclusion ratio**

A limitation applicable to the amount of contributions to a tax-sheltered annuity that an employee may exclude from gross income for the taxable year.

**Exclusive benefit rule**

The requirement that plan fiduciaries must discharge their duties solely in the interest of participants and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries and paying administrative expenses.

**F****Fiduciary**

An obligation of a person or trust institution to act in the best interests of the client on issues within the scope of their relationship.

**Fiduciary duty/fiduciary duties**

Responsibility to act with loyalty and prudence, to diversify plan assets, and act in accordance with plan documents.

**Fill or Kill**

The offer of first right of refusal to a potential borrower who has 'iced' or put stocks on 'hold' once another party has committed to borrow the shares. The original party must either commit to borrow or release the hold.

**Fixed income arbitrage**

Investment strategy that seeks to exploit pricing inefficiencies in fixed income securities and their derivative instruments. Typical investment will involve long a fixed income security or related instrument that is perceived to be undervalued, and short a similar, related fixed income security or related instrument.

**Fixed income directional**

Fixed income investing on the long or short side, based on a manager's view of current market pricing of fixed income securities.

**Flexible benefit plan**

A qualified arrangement under which participants may elect a combination of various taxable and tax-preferred forms of compensation, often including but not limited to cash, health insurance, 401(k) plan contributions, life insurance, child care, and additional vacation days. Also called a cafeteria plan.

**Flexible spending account**

A type of flexible benefit plan that allows employees to set money aside on a pretax basis for qualified unreimbursed medical or dependent care expenses. These accounts may exist either

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within a full flexible benefit plan or separately as a stand-alone plan. They can be funded by salary reduction arrangements, employer contributions, or both. Employees must determine how much they wish to contribute to the account in advance and forfeit any unused dollars at the end of the year.

**Forfeit, forfeiture**

The benefits that a participant loses if he or she terminates employment before becoming eligible for full retirement benefits under the plan. The difference between total benefit and total vested benefit. For example, a participant who leaves employment when 60% vested will lose the remaining 40%.

**Form 5300**

Form used to apply for an Employee Benefit Plan determination letter.

**Form 5307**

Form filed with the IRS for employers who adopt a standard plan document of a service provider (also known as a master plan, prototype, regional prototype, or volume submitter plans) filing for a determination letter on the effect of a minor plan amendment.

**Form 5500**

Form which must be filed with the IRS for each year in which a qualified plan has assets. Form 5500 is filed for plans with 100 or more participants, Form 5500 C or R for those plans with less than 100 participants, and Form 5500 EZ for qualified plans with less than 2 participants. Plans that qualify for Form 5500 C/R must file 5500 Form C for the first year, and every three years thereafter. In intervening years those plans may file Form 5500-R.

**Free Delivery**

Delivery of securities without any payment of funds.

**Frozen plan**

A qualified plan that continues to exist even though employer contributions have been discontinued and benefits are no longer accrued by participants.

**Fund of funds**

Investment partnership that invests in a series of other funds. Portfolio will typically diversify across a variety of investment managers, investment strategies, and subcategories.

**Fundamental investment analysis**

Analysis of the balance sheet and income statements of companies in order to forecast their future stock price movements.

**Funding policy**

An acknowledgement of the amount and timing of contributions required to fund benefit obligations.

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## G

**General Collateral**

Collateral (usually bonds) that satisfy the general requirements of a lender of cash in a repo transaction.

**General partner**

Managing partner of a limited partnership, who is responsible for the operation of the limited partnership. The general partner's liability is unlimited.

**Global macro investing**

Investment strategy that seeks to profit by making leveraged bets on anticipated price movements of global stock markets, interest rates, foreign exchange rates, and physical commodities.

**Government debt**

Government or agency-issued interest bearing/discounted debt instrument that obligates the issuing corporation to pay the bondholder a specified sum of money, at specific intervals, and to repay the principal amount of the loan at maturity. U.S. government issues are backed by the full faith and credit of the U.S. government, which, if necessary, can print money to make payments.

**Government plan**

A plan established for a state or local government, including a state, a political subdivision of a state, or any agency or instrumentality of either of them.

**Graduated vesting**

A vesting schedule that provides for increasing levels of vesting with increasing length of service, until full vesting is achieved. (See vesting.)

**Growth stocks**

Equity of a corporation that has displayed faster-than-average earnings gains over the past few years, and is expected to continue to show high rates of earnings growth. Growth stocks will typically have a higher price/earnings ratio because of their higher expected earnings growth.

## H

**Hardship, financial hardship**

An in-service withdrawal from a retirement plan due to a participant's immediate and heavy financial need that cannot be satisfied from other resources. The conditions for a hardship withdrawal can be determined through either a safe harbor or a facts-and-circumstances method.

**Highly compensated employee (HCE)**

An employee who, during the year or the preceding year, is (or was) (1) a 5% owner or (2) receiving compensation in excess of \$80,000 (adjusted for cost-of-living increases) and was a member of the top-paid group of employees (if elected by the employer).

**Hot Stock**

A stock much in demand by borrowers and thus hard to find.

**Hour of service**

Each hour for which an employee is paid or entitled to payment for the performance of duties for the employer.

**HR-10, HR10, Keogh**

A qualified retirement plan that covers a self-employed person (though other employees might also be covered). May include either a defined contribution or a defined benefit plan.

**Hurdle rate**

The minimum investment return a fund must exceed before a performance allocation/incentive fee can be taken.

I

**Icing Stock (aka Holding Stock)**

A term for reserving stock in anticipation of borrowing it.

**In-service distribution**

Distribution of retirement benefits received to a plan participant prior to retirement (and, generally, while still employed). Most in-service distributions received before age 59-1/2 will incur an additional 10% tax that applies to distributions from qualified plans, tax-sheltered annuities, and individual retirement accounts.

**Incidental (benefit)**

Any benefit of a retirement plan which is not specifically spelled out in the plan as a primary retirement benefit; also referred to as a fringe benefit. Special rules apply to these benefits to prevent discrimination with regard to incidental benefits.

**Individual retirement account (IRA)**

An IRA is a nonforfeitable trust or custodial account established for the exclusive benefit of an individual and the individual's beneficiaries. The trustee (or custodian) must be a bank, thrift institution, insurance company, brokerage firm, or other person who demonstrates to the IRS that such person will administer the account in a manner consistent with the requirements of the law. No part of the funds may be invested in life insurance contracts. Assets of the account cannot be

commingled with other property except if there is a common trust fund or common investment fund.

**Individually designed plan**

An individually designed (or custom-designed) retirement plan is tailored to meet particular needs. It is based on a legal document drafted specifically to conform with the employer specifications, unlike a prototype plan that only allows for customization within a fixed set of choices.

**Integration**

A feature of some qualified retirement plans that coordinates plan benefits or contributions with Social Security. Social Security benefits are progressive, i.e., they replace a greater proportion of pre-retirement earnings for lower earners than for higher earners. To compensate for this benefit tilt, plans may provide proportionately (as a percentage of compensation) higher pension benefits or contributions to higher-paid participants than to lower-paid participants, subject to certain limits. Since the Tax Reform Act of 1986 (TRA 86), integration is referred to as permitted disparity.

**Interested parties**

Generally, all employees at the time the employer applies for a determination letter for the plan. The Internal Revenue Service requires that interested parties be notified when the application is made.

**Investment adviser**

Individual or entity who provides investment advice for a fee. Registered Investment Advisers must register with the SEC and abide by the rules of the Investment Advisers Act.

**Investment Manager**

Individual who is responsible for the selection and allocation of investment securities.

**Investment Policy**

A formal statement outlining the broad investment objectives of a plan.

**IRC, Code, Internal Revenue Code**

Internal Revenue Code of 1986, the basic Federal tax law.

**J****Joint and survivor annuity**

A qualified joint and survivor annuity is an immediate annuity for the life of the participant, with a survivor annuity for the life of the participant's spouse. The amount of the survivor annuity may not be less than 50 percent, nor more than 100 percent, of the amount of the annuity payable during the time that the participant and spouse are both alive.

**Junk bonds**

Corporate bonds with a credit rating of BB or lower. Also known as high yield bonds. Usually issued by companies without long track records of sales or earnings, or by those with questionable credit standing.

## L

### Large cap securities

Equity securities with relatively large market capitalization, usually over \$5 billion (shares outstanding times price per share).

### LDC debt

Debt securities issued by lesser-developed countries.

### Leased employee

An individual who performs services for another person under an arrangement between the recipient of those services and a third person (the leasing organization) who is otherwise treated as the individual's employer. The services performed by an individual for the recipient must be of a type that is historically performed by employees.

### Legal Risk

The risk that assets cannot be recovered in a particular jurisdiction in the event of the bankruptcy of an intermediary, or a similar event.

### Liquidity Risk

A counterparty or his agent fails to pay what he owes on time or fails to deliver the assets he promised on time.

### Loan

If the plan allows, a participant may take a loan from the plan, using the vested account balance as collateral. These loans may allow a participant to repay the account with a stipulated interest rate, or repayments may be credited to the general assets of the plan. Qualified loans normally provide favorable interest rates for participants (prime + a percent or two), but have many restrictions regarding size and amortization which prevent the loan proceeds from being considered as current income or as an in-service withdrawal.

### Long biased managers

Investment managers with a long-directional market philosophy. Short selling and hedging are not the main components of their investment portfolio.

### Lump-sum distribution

Distribution from a qualified retirement plan of a participant's vested balance within one taxable year. To be considered a qualified lump-sum distribution, it must be made because of the

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employee's death, attainment of age 59-1/2, separation from service, or disability (if self-employed).

**M****Make Whole**

To compensate the lender of securities for any distributions or other entitlements the lender would have received had it not lent the securities.

**Management company**

A firm that, for a management fee, invests pools of capital, for the purpose of fulfilling a sought-after investment objective.

**Manufactured Dividends**

Payments made by the borrower to the lender of securities in lieu of actual dividends the lender would have received had it not lent the stock.

**Margin**

The amount or percentage by which the collateral value exceeds the value of the securities on loan, e.g., 5%. Margin can also on occasion refer to the total value of the collateral as a percentage of the loan value, e.g., 105%.

**Market neutral investing**

Investing in financial markets through a strategy that will result in an investment portfolio not correlated to overall market movements and insulated from systematic market risk.

**Market Risk**

The additional risk that market prices move in an adverse direction before a credit, liquidity, or operational problem is resolved.

**Marking to Market**

In securities lending, marking to market is the practice of periodically repricing the securities on loan against the value of the collateral.

**Master plan**

A retirement plan sponsored by a financial institution such as an insurance company, bank, mutual fund, or stock brokerage firm, that may be adopted by an employer by executing ("adopting") a participation agreement.

**Medium cap securities**

Equity securities with a middle-level stock market capitalization. Mid-cap stocks will typically have between \$1 billion and \$5 billion in total market capitalization (shares outstanding times price per share).

**Minimum account size**

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The minimum initial investment amount an investor must allocate in order to enlist the services of an investment manager, via a separate account, or a limited partnership interest.

**Minimum additional investment**

Minimum incremental capital allocation allowed to an existing investor.

**Minimum benefit (under top-heavy plan)**

Under a top-heavy defined benefit plan, the annual requirement benefit of a non-key employee must be not less than 3% of compensation.

**Minimum coverage**

Minimum number of employees that must be covered by a plan before it can be tax-qualified. Plan must satisfy either the ratio percentage test or the average benefit test.

**Minimum funding**

Minimum amount that must be contributed by an employer that has a defined benefit, money purchase, or target benefit pension plan. If the employer fails to meet these minimum standards, in the absence of a waiver from the IRS, an excise tax will be imposed on the amount of the deficiency.

**Minimum participation**

Must be met by employer in order for the plan to be qualified; plan must benefit at least the lesser of (1) 50 employees, or (2) 40% of all employees. Minimum participation requirements cannot be satisfied by combining plans of an employer.

**Money manager**

A portfolio/investment manager, the person ultimately responsible for a securities portfolio.

**Money purchase**

A defined contribution plan under which the employer's contributions are mandatory and are usually based on each participant's compensation. Retirement benefits under the plan are based on the amount in the participant's individual account at retirement.

**Mortality**

Rates based on life expectancy formulas used by defined benefit actuaries to determine funding requirements based on the formulas in the plan and the demographics of the plan participants.

**Mortgage-backed security**

A pass-through security that aggregates a pool of mortgage-backed debt obligations. Mortgage-backed securities' principal amounts are usually government guaranteed; homeowners' principal and interest payments pass from the originating bank or savings and loan through a government agency or investment bank, to investors, net of a loan servicing fee payable to the originator.

**Multi strategy**

Investment philosophy allocating investment capital to a variety of investment strategies, although the fund is run by one management company.

**Multi-employer plan**

A pension plan, maintained under a collective bargaining agreement, that covers the employees of more than one employer. Generally, the various employers are not financially related but rather are engaged in the same industry.

**Multiple employer plan**

A qualified retirement plan to which more than one employer contributes and that is not the subject of a collective bargaining agreement.

**N****Named fiduciary**

A fiduciary named in the plan instrument or identified through a procedure set forth in the plan. The named fiduciary has authority to designate others to carry out fiduciary responsibilities.

**NAV**

Net asset value per share - the market value of a fund share. Equals the closing market value of all securities within a portfolio plus all other assets such as cash, subtracting all liabilities (including fees and expenses), then dividing the result by the total number of shares outstanding.

**Net rate of return**

Percentage appreciation from the prior period, after accounting for all fees and expenses.

**Net unrealized appreciation**

The difference between the market value and acquisition cost of a security.

**New issues**

Stock or bond offering being issued to the public for the first time. Also known as "hot issue".

**Non-directional**

Investment strategy with absolute return objectives, irrespective of market movements.

**Non-highly compensated employee (NHCE)**

Any employee (either active or former) who does not fall under the definition of a highly compensated employee.

**Nondeductible**

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Unable to be deducted for tax purposes; nondeductible contributions are defined as the sum of (1) amounts contributed by an employer to a qualified retirement plan for a taxable year in excess of the amount allowable as a deduction for that taxable year, and (2) the unapplied amounts from the preceding taxable year.

**Nondiscrimination**

A retirement plan is a qualified plan only if the contributions or benefits provided under the plan do not discriminate in favor of highly compensated employees. Three requirements must be met: (1) contributions or benefits provided in the plan must be nondiscriminatory in amount; (2) benefits, rights, and features provided under the plan must be available to participants in a nondiscriminatory manner; and (3) the effect of plan amendments and of plan terminations must be nondiscriminatory.

**Nonelective contributions**

A contribution to a cash-or-deferred arrangement (CODA) other than an elective deferral. The latter is a contribution that the employee could have elected to receive as cash, but instead elected to defer receipt.

**Nonforfeitable benefits**

Benefits that cannot be lost by a participant -- "vested" benefits.

**Nonperiodic distributions**

Most nonperiodic distributions fall into three main categories: lump sum distributions, eligible rollovers, and loans from retirement plans. Nonperiodic distributions normally require withholding tax unless the distribution is transferred by a direct rollover to an eligible retirement plan that permits the acceptance of rollover distributions.

**Nonqualified plan**

Retirement plan that does not fall within the IRS and ERISA guidelines established for a plan to be qualified for tax purposes.

**Nonresident alien**

Non-U.S. citizen who resides outside the United States; in some cases, inclusion of nonresident aliens in a qualified plan can cause a plan to lose its tax-qualified status.

**Normal retirement age**

Established by the individual plan, though most plans specify age 65 as the normal retirement age. Although it is possible to set the retirement age lower than 65, tax complications and potential discrimination issues arise when the retirement age is set lower than age 65.

**Notice to interested parties**

Notice given to all parties in interest regarding legal or administrative issues about which all parties in interest are required by the IRS and the DoL to have disclosure.

**Notification letter**

IRS option letter which alerts retirement plans, plan sponsors, and plan administrators of potential issues that might cause a plan to lose its tax-qualified status.

## O

**Officer (as used in HCE definition)**

An administrative executive who is in regular and continued service, excluding those employed for a special and single transaction or those with only nominal administrative duties.

**Old Age, Survivors, and Disability Insurance (OASDI)**

Payroll tax equal to a set percentage of wages paid to employees. The OASDI tax rate provides for permitted disparity in a defined contribution plan and a simplified employee pension (SEP).

**Operational Risk**

A breakdown in the clearing and settlement system in a market that precipitates a credit, liquidity, or regulatory system.

**Opinion letter**

Interpretive letter issued by the U.S. Department of Labor that addresses specific issues and clarifies DoL guidelines.

**Opportunistic**

Investment strategy that seeks to profit from pricing discrepancies resulting from corporate "event" transactions, such as mergers & acquisitions, spinoffs, bankruptcies, or recapitalizations. Also known as "event driven."

**Optional forms of benefit**

Distribution alternative that is available under a qualified retirement plan. Variances in optional forms of benefit may result from differences in payment schedule, timing, commencement, medium of distribution, election rights, or the portion of the benefit to which the distribution alternative applies.

**Ordinary income**

Income that is not derived from interest, investment, royalties, rents, etc. (also referred to as earned income), used as a factor in multiple tax calculations regarding the taxation of benefits and the deduction of contributions.

**Owner-employee**

A sole proprietor or a partner who owns more than 20% of either the capital interest or the profits interest in a partnership.

## P

**Pairs trading**

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Non-directional relative value investment strategy that seeks to identify two companies with similar characteristics whose equity securities are currently trading at a price relationship that is out of their historical trading range. Investment strategy will entail buying the undervalued security, while short-selling the overvalued security.

**Partial termination**

Reducing benefits or making participation requirements less liberal, although not amounting to a complete termination of the plan, may be considered a partial termination, resulting in the vesting of accrued benefits for at least part of the plan.

**Participant**

An employee who meets the participation requirements for the plan and who is enrolled in the plan.

**Participation**

Taking part in a retirement plan. Most plans have participation requirements that specify which employees are eligible to participate in the plan.

**Party in interest**

A party that, because of his, her, or its special relationship with the plan (e.g., as a fiduciary, provider of services, or the plan sponsor), is prohibited from entering into certain transactions with the plan.

**Pension Benefit Guaranty Corporation (PBGC)**

A nonprofit corporation, functioning under the jurisdiction of the Department of Labor, that is responsible for insuring pension benefits.

**Pension plan**

A defined benefit plan that provides a definitely determinable annual benefit based on a formula contained in the plan document.

**Periodic distributions**

Recurring payments such as an annuity that qualify for elective withholding but do not fall under the automatic withholding rules.

**Permanent**

Qualified plans must be established with the intent of being permanent. Plans can be amended or terminated, but the plan sponsor must prove to the IRS that the retirement plan is for the long-term benefit of its participants.

Retirement vehicle by which an employer intends to provide long-term benefits for its employees. Plans can be either defined benefit plans or defined contribution plans. In addition, plans either can be qualified or nonqualified for tax purposes.

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**Plan assets**

Assets held by the retirement plan for the benefit of the participants. Plan assets are to be segregated from the employer's property and held in trust by a trustee or investment manager who has the fiduciary duties of (1) composing the portfolio with regard to diversification, (2) structuring the assets so that the liquidity and current return of the portfolio are relative to the anticipated cash flow requirements of the plan, and (3) managing the assets so that the projected return of the portfolio is relative to the funding objectives of the plan.

**Plan document**

The document that specifies the plan or instrument, including all amendments.

**Plan year**

The 12 calendar months ending with the last day of the month specified by the employer in the Adoption Agreement, or plan document.

**Portfolio turnover**

The number of times an average portfolio security is replaced during an accounting period, usually a year.

**Premium**

As in 'trading at premium' and 'special premium,' this term connotes a higher price relative to the usual price of the same instrument or to the price of a related instrument.

**Preretirement survivor annuity**

Provides for the medical care insurance for dependents on the date of an employee's death to remain in force, usually without payment of premium, for some specified period ranging from six months to two years from the date of the employee's death. This survivor coverage, designed to protect surviving dependents from the sudden termination of benefits as a result of the employee's death, has been replaced and broadened by the requirements prescribed by COBRA.

**Prime broker**

The principal brokerage firm an investment fund does business with.

**Prime Brokerage**

The provision by securities houses of financing, clearing, securities lending, and other services to smaller broker/dealers or hedge funds.

**Principal**

Major party to a transaction, acting as either a buyer or seller (or lender or borrower), acting on its own account and at its own risk.

**Profit-sharing plan**

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A plan or program for sharing company profits with the firm's employees. Under ERISA and the IRC, profit-sharing plans are treated as defined contribution or individual account plans. As such, an employer is under no financial obligation to provide a specific dollar amount at retirement in these plans.

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**Prohibited transaction**

ERISA prohibits a fiduciary from causing a plan to enter directly or indirectly into transactions, with certain persons defined as "parties-in-interest" as either buyer or seller, that would constitute a (1) sale or exchange, or leasing of any property between the plan and a party-in-interest; (2) lending of money or other extension of credit between the plan and a party-in-interest, (3) furnishing of goods, services, or facilities between the plan and a party-in-interest; (4) transfer to or use by or for the benefit of a party-in-interest of any assets of the plan; or (5) the acquisition, on behalf of the plan, of any employer security or employer real property not otherwise specifically exempted by law or regulation.

**Prototype plan**

A retirement plan, sponsored by a financial institution such as an insurance company, bank, mutual fund, or stock brokerage firm, that may be adopted by an employer by executing (adopting) a participation agreement.

**Prudent man**

Requires that a plan fiduciary use the "care, skill and diligence" that would be used by a reasonably prudent person familiar with "such matters." While essentially an extension of the common-law requirement of good faith in handling other people's money, it creates a "prudent expert" test that places an additional burden on the plan sponsor -- to know what a person in this position of responsibility should know, rather than a reliance on the knowledge level of the general populace.

**PS 58**

The costs applied to current life insurance protection provided under the plan for purposes of determining the amount of the participant's tax liability for the coverage.

**Q****Qualified**

A plan that is entitled to the tax benefits and protections of the Employee Retirement Income Security Act (ERISA). In order to be "qualified", a plan must: (1) have a written plan document, (2) be permanent, (3) communicate the provisions of the plan to eligible employees, (4) be established and operated for the exclusive benefit of plan participants or their beneficiaries, (5) have minimum participation (eligibility) standards, (6) be nondiscriminatory in coverage and contributions/benefits and (7) have minimum vesting standards. For the plan assets to be eligible for tax benefits, the Internal Revenue Code (IRC) also requires that the plan: (1) meet minimum participation, vesting and funding standards, and plan assets must be legally segregated from other assets of the sponsor, (2) must not benefit only a limited number of favored employees but must benefit employees in general in such a way as to be deemed nondiscriminatory by the IRS and (3) must provide definitely determinable benefits.

**Qualified Domestic Relations Order (QDRO)**

A domestic relations order that creates or recognizes the existence of an alternate payee's right or assigns an alternate payee the right to receive all or a portion of the benefits payable with respect to a participant under a qualified retirement plan, and that complies with certain special requirements. Only a spouse, former spouse, or dependent can be the alternate payee.

**Qualified Joint and Survivor Annuity (QJSA)**

An immediate noncashable and nontransferable annuity for the life of the participant, with a survivor annuity for the life of the participant's spouse. The amount of the survivor annuity cannot be less than 50% or more than 100% of the amount of the annuity payable during the joint lives of the participant and participant's spouse.

**Qualified Matching Contribution (QMAC)**

An employer may make qualified matching contributions to the plan. The amount of such qualified matching contributions shall be calculated by reference to the participant's elective deferrals as specified in the plan document. Qualified matching contributions are nonforfeitable when made, and distributable only as defined in the plan document.

**Qualified Nonelective Employer Contribution (QNEC)**

An employer may make special qualified nonelective contributions on behalf of non-highly compensated employees sufficient to satisfy either the ADP test or the ACP test, or both, pursuant to regulations under the Code. Allocations of qualified nonelective contributions to each non-highly compensated employee's account shall be made in accordance with the plan document.

**Qualified PreRetirement Survivor Annuity (QPSA)**

An immediate noncashable and nontransferable annuity purchased from a legal reserve life insurance company providing approximately equal monthly installments for the life of the participant's surviving spouse, if any.

**Qualified Separate Line Of Business (QSLOB)**

(Separate line of business -- lines of business organized and operated separately from one another) To be a qualified separate line of business, the following requirements must be satisfied: (1) each separate line of business must have at least 50 employees; (2) the employer must notify the IRS that it treats itself as operating qualified separate line of business; and (3) the line must satisfy administrative scrutiny.

**Qualifying employer securities**

Stock, marketable obligations or certain publicly traded partnership interests issued by an employer of employees covered by a plan of the employer or an affiliate.

**R****R squared**

Numerical value indicating correlation to a benchmark index. Statistically defined as deviations from the mean of a dependent variable that can be explained by deviation from the mean in an independent variable.

**Rate of return**

Percentage appreciation in market value for an investment security or security portfolio.

**Rebate**

The interest rate that a securities lender pays the borrower on cash collateral, normally below the market rate to reflect the lending fee.

**Recall**

Demand by the lender for a return of securities from the borrower.

**Record Date**

Date on which a shareholder must be registered on the company's books in order to be entitled to a dividend or other distribution.

**Redemption**

Liquidation of interests in an investment fund.

**Redemption fee**

Fee charged upon a voluntary redemption from an investment vehicle

**Redemption notice period**

Required notification period of an intended redemption request. Notification is usually required in writing.

**Regulatory Risk**

The risk that the regulatory or tax status of an asset changes, causing loss.

**Relative value**

Non-directional market neutral investment strategy that seeks to exploit pricing discrepancies between a pair of related securities. Strategy will entail buying the undervalued security and short selling the overvalued security.

**Repurchase Agreement**

Also called a repo, this is a transaction between a dealer and an investor whereby the investor sells a security to the dealer with an agreement to repurchase the security on a future date at a lower price that will result in a predetermined interest cost to the dealer. This is considered to be a collateralized loan of money, the securities representing the collateral.

**Required beginning date**

Generally refers to the date on which distributions from a plan (or IRA) must begin -- the first day of April of the calendar year following the calendar year in which the participant attains age 70 1/2.

**Required minimum distribution, 401(a)(9)**

The minimum amount that must be paid each year to an employee, beginning with the required beginning date. Simplistically, the calculation of this amount is distributed based on actuarial tables. If not distributed on a timely basis, or in the correct amounts, the employee is assessed a penalty of 50% of the amount which should have been distributed.

**Retirement Equity Act of 1984 (REA)**

The major changes of this legislation included an expansion of the survivor-benefit requirements, allowed the assignment/alienation of benefits in a divorce proceeding (via a QDRO), and reduced the age requirement for plan participation.

**Revenue procedure (rev proc)**

A revenue procedure issued by the Internal Revenue Service, similar to a revenue ruling, but dealing with procedural matters, particularly those that affect dealings with the IRS.

**Revenue ruling (rev ruling)**

A ruling issued by the Internal Revenue Service expressing its view on the tax results of a specific problem/situation.

**Reverse Cash and Carry Trade**

A strategy in which the arbitrage trader buys the futures contract and sells the cash instrument short in order to profit from a price discrepancy.

**Reverse Index Arbitrage**

A reverse cash and carry trade carried out with stock index futures.

**Reversion of contribution**

The return of an employer contribution made based on a mistake of fact, or which would impact the plan's qualification or the contribution's deductibility.

**Risk arbitrage**

Relative value investment strategy that seeks to exploit pricing discrepancies in the equity securities of two companies involved in a merger-related transaction. Strategy will entail the purchase of a security of the company being acquired, along with a simultaneous sale in the acquiring company.

**Rollover**

A tax-free distribution from one retirement account to another, including individual retirement accounts.

**Roth IRA**

A type of IRA to which contributions are nondeductible, and from which distributions are not taxable (including earnings on those contributions, assuming certain conditions are met).

**Rule of parity**

Enables a plan to forfeit any nonvested accrued benefit upon occurrence of five consecutive one-year breaks in service; the entire prebreak account balance will, therefore, be forfeited under that rule.

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## S

### S Corporation

A corporation whose shareholders have elected to be taxed like a partnership (rather than a regular, "C", corporation), with profits/losses passing directly through to shareholders, rather than at the corporate level.

### Savings Incentive Match Plan for Employees (SIMPLE)

A simplified retirement plan, structured either as a 401(k) or as an IRA, that allows employees to make elective contributions, while requiring certain matching or nonelective contributions from the sponsoring employer. The specified rate of employer contributions obviates the requirement to perform the ADP/ACP nondiscrimination tests.

### Section 125 (of IRC)

Used in a cafeteria plan to determine qualifications for a qualified retirement plan.

### Section 401(a)(26)(of IRC)

Establishes the minimum coverage requirements for a participant in a qualified retirement plan.

### Section 404(c) (of ERISA)

Permits participants to make independent choices from investment alternatives as to how they wish funds to be invested in a self-directed plan.

### Section 412 (of IRC)

Ensures that minimum funding standards have been established for ERISA plans, and that any party with discretionary power or authority regarding the plan or plan assets must be bonded.

### Section 414 (compensation)

Provides rules for defining compensation for purposes of applying any provisions that specifically refer to section 414.

### Section 415

Sets out the maximum contribution and benefit limitations of the Internal Revenue Code for qualified plans.

### Securities Washing

Transiting a lender's securities through an intermediary's account with a foreign settlement bank before their delivery to the borrower. This preserves the anonymity of the counterparties on either side of the transaction.

### Self-directed

An account where the individual participant has elected to make all investment decisions. Generally speaking, this terminology applies to any 401(k)-type arrangement where participants

direct their account investments. More specifically, "self-directed brokerage accounts" are available in a growing number of 401(k) plans where a participant actually places trades directly through a broker designated by the program, permitting investment in a wider variety of securities, including individual stocks.

#### Self-employed

An individual who has earned income for the taxable year, or an individual who would have had earned income but for the fact that the trade or business had no net profits for the taxable year. The self-employed individuals Tax Retirement Act of 1962 established the framework by which unincorporated small business owners and partners could set up and participate in tax-qualified pension plans popularly referred to as HR-10 (for an early version of the bill) or Keogh plans (for U.S. Rep. Eugene Keogh, sponsor of the bill). In order to be eligible to establish a Keogh plan, an unincorporated sole proprietorship or partnership must be engaged in a business with a profit motive. Both owners/partners and their self-employed common-law employees are eligible to participate. For Keogh plan purposes, a common-law employee is one for whom an employer has the right to control and direct the results of the work and how it is done.

#### Separation from service

A person is separated from service when he does not receive compensation from his former employer. This typically occurs in termination or a willful separation of service.

#### Set-off

A netting of obligations between the borrower and the lender in the case of borrower default.

#### Settlement Date

Date by which an executed trade must be cleared. Each market has its own conventions as to the period between trade date and settlement date.

#### Settlement Period

The period between trade date and settlement date.

#### Sharpe ratio

Numerical value indicating risk-adjusted performance. Calculated by subtracting the risk-free rate of return from average return, divided by standard deviation of returns.

#### Short Hedge

A hedged short position. Generally, this refers to either a short position in a security hedged by a long derivative position, or a short position in a derivative hedged by a long position in the underlying security.

#### Short Interest

A figure representing the total amount of shares that have been sold short and have not yet been repurchased to close out short positions.

#### Short seller

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One who sells a security without owning it, with an obligation to buy the security at a later time, and repay the security creditor who had lent it for sale. Profits will result if the investor is able to buy it back later at a lower price.

**Simplified employee pension (SEP)**

An individual retirement account arrangement for covered employees, subject to specific rules on contribution and eligibility. First authorized in 1979, SEPs simplify the administration and reduce the paperwork associated with many other types of pension plans. For this reason, they are especially attractive to smaller employers.

**Slots available**

Refers to the number of partnership interests that are still available within an investment vehicle, as limited by the 1940 Investment Advisers Act.

**Small cap**

Securities in which the parent company's total stock market capitalization is less than \$1 billion.

**Soft commodities**

Tropical commodities such as coffee, sugar and cocoa. In a broader sense may also include grains, oilseeds, cotton and orange juice. This category usually excludes metals, financial futures and livestock.

**Sole proprietor**

The owner of 100% of an unincorporated business.

**Sovereign debt**

Fixed income security guaranteed by a foreign government.

**Special Collateral**

Used in contrast to 'general collateral' to refer to specific securities required in a borrower's trading strategy.

**Special situations investing**

Investment strategy that seeks to profit from pricing discrepancies resulting from corporate "event" transactions, such as mergers & acquisitions, spinoffs, bankruptcies, or recapitalizations. Also known as "event driven."

**Spin-off**

A form of a corporate divestiture that results in a subsidiary or division becoming an independent company.

**Spousal consent**

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A spouse's written consent for the participant-spouse to designate some other beneficiary or joint beneficiary arrangement.

**Standard deviation**

Statistical measure of the degree to which an individual value in the probability distribution tends to vary from the mean of the distribution.

**Statistical arbitrage**

Market neutral relative value investment strategy that involves the utilization of a quantitatively based investment methodology that identifies securities or groups of securities that are currently trading at prices out of their historical range. Will involve longing an undervalued security and short selling an overvalued security.

**Stock bonus**

A defined contribution plan similar to a profit-sharing plan, except that the employer's contributions do not have to be made out of profits and benefit payments generally must be made in employer stock.

**Strategic asset allocation**

A long-term allocation of assets based on the plan's objectives.

**Street Name**

Phrase describing securities held in the name of a broker or other nominee instead of the actual owner. Securities lenders often leave stock in street name (except before record date) so they can readily lend it out again, thus avoiding the delay and the expense of registration.

**Subscription Period**

The period during which shareholders must subscribe for their rights in a rights offering.

**Summary annual report**

Must be distributed to plan participants within the later of nine months after the close of the plan year or two months after the end of an IRS-granted extension to file the Form 5500 or 5500-C/R. It must contain certain financial and other information in the manner set forth in Labor Reg. Section 2520.104b-10(c)(3).

**Summary of Material Modifications**

A document that summarizes significant changes to a plan. It must be furnished to participants and beneficiaries, as well as with the United States Department of Labor. [ERISA Sec. 101(a) and 101(b)]

**Summary Plan Description (SPD)**

A simplified but comprehensive description of the plan provisions and ERISA-related material that must be provided to participants and beneficiaries, as well as the Department of Labor. Courts have held that, when the SPD and plan document are in conflict, the SPD controls. The SPD must be revised every five years if there are material modifications -- and every 10 years even if

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not. New plans are to have an SPD available 120 days after the plan's effective date (or date of plan adoption, whichever is later). New participants should receive an SPD within 90 days of eligibility.

#### Survivor annuity

Part of "joint and survivor annuity," an annuity for the life of a participant with a survivor annuity for the life of the participant's spouse which is not less than one-half, nor greater than the amount of the annuity payable during the joint lives of the participant and the participant's spouse. The joint and survivor annuity will be the amount of benefit which can be purchased with the participant's vested interest in the plan.

#### Suspension (of benefits)

Benefits are no longer received. This can occur in a variety of situations including death.

#### Systemic Risk

The risk that a failed payment or delivery has knock-down effects throughout the transaction chain, plunging the entire financial system into crisis.

## T

#### Target benefit

A "hybrid" plan combining some of the characteristics of a defined benefit plan and a money purchase plan. A defined benefit formula is used to determine each employee's targeted retirement benefit. An acceptable actuarial cost method, along with acceptable assumptions, is used to determine a contribution for each employee assumed to be sufficient to provide the targeted benefit. At this point, the plan becomes defined contribution in operation, with individual accounts established for employees and all investment gains and losses are credited to their accounts. Ultimately, retirement benefits will be determined by actual account balances. For most tax law purposes, including Section 415 limits, a target benefit plan is treated as a defined contribution plan. Also, it is not subject to the plan termination insurance provisions of ERISA.

#### Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)

This legislation lowered limits on contributions and benefits for corporate plans; outlined situations where certain loans from a plan could be treated as distributions; and added "top-heavy" plan requirements. It also introduced the notion of voluntary withholding of taxes on distributions from qualified plans.

#### Tax-deferred annuity, tax-sheltered annuity

Also known as 403(b) annuities. This is the mechanism for employees of certain not-for-profit organizations to elect to defer compensation in a qualified retirement plan.

#### Taxable wage base

With respect to any year, the maximum amount of earnings which may be considered wages under Section 3121(a)(1) of the internal Revenue Code.

**Term Loan**

A securities loan for which a maturity has been agreed at the outset.

**Termination**

A person who has been a participant, but whose employment has been terminated other than by death, total and permanent disability or retirement.

**Third-party administrator (TPA)**

Specialized plan administration firms that generally act as an extension of the plan sponsor's duties.

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**Top down investing**

An approach to investing in which an investor first looks at trends in the general economy, and next selects industries and then companies that should benefit from those trends.

**Top hat**

Plans for highly compensated individuals and executives not covered by the PBGC.

**Top-heavy**

A plan that primarily benefits key employees, generally when the value of accrued benefits for "key" employees is more than 60% of the value of total accrued benefits for the plan. If a plan is found to be top-heavy, special remedies must be applied, including: - The benefit accrual for non-key employees under a defined benefit plan must be at least 2% of pay for up to 10 years. - The contributions made for non-key employees under a defined contribution plan must be at least 3% of pay. - The section 415 limits can be further reduced unless special conditions are met. - Special and more rapid vesting requirements will apply.

**Top-paid group (as used in HCE definition)**

Generally, the top 20% of employees who performed services for the employer during the applicable year, ranked according to the amount of "415 Compensation" received from the employer during such year.

**Triparty**

A structure in which a third party, independent of both the lender and borrower, is appointed to monitor, control, and manage the collateral.

**Trustee**

The individual/institution holding legal title to the trust property. The person or entity named in the trust document and any successors in interest with fiduciary responsibilities as named in the trust document.

**Turnarounds**

Favorable reversal in the fortunes of a company, a market, or the economy at large. Turnaround specialists seek to exploit market pricing inefficiencies in securities of companies that might be on the verge of a turnaround situation.

**U****U.S. equity hedged**

Directional, U.S.-oriented investment philosophy that invests in U.S.-exchange-traded securities, on the long and short side. Short exposure is utilized to manage portfolio market risk.

**Unemployment Compensation Amendments of 1992 (UCA)**

Tax measures signed into law on July 3, 1992. A legislative "sneak attack" that extended unemployment benefits in an election year, paid for by introducing mandatory income tax withholding on certain plan distributions.

**Unlisted security**

A security that is not listed on an organized exchange. Unlisted securities are instead traded in the Over The Counter (OTC) Market.

**Unrelated business taxable income, UBTI, UBIT**

Gross income derived by the IRC Section 501(a) trust from an unrelated trade or business regularly carried on by it, less the allowable deductions which are directly connected with the carrying on of such trade or business.

**Unwind**

To 'unwind' a position in the securities or derivatives markets is to terminate it by selling (if it is a long position) or by buying in (covering) if it is a short position.

**Usage Fee**

The part of the lender's compensation that corresponds to the extent of the actual borrowing from its portfolio. Such a fee is usually coupled with a commitment fee in an exclusive arrangement with one borrower or subcustodian bank.

**V****Valuation**

Placing a value or worth on an asset. For alternative investment portfolios, valuation can be determined by the last market-traded price, or by general partner discretion in the case of illiquid securities, where there is no readily available market-pricing mechanism.

**Vesting, vested, vesting schedule**

Generally, the nonforfeitable portion of any account maintained on behalf of a participant. Upon satisfying the participation requirements, further conditions must be met for the participant to become entitled to receive a benefit -- that is, to have a vested right to the benefits.

**Voluntary/employee contribution**

A provision for voluntary employee contributions is an optional feature included in some thrift plans. This provision provides a means for the employee to make contributions to the plan on an "after-tax" basis, while allowing earnings on those contributions to accumulate on a tax-deferred basis. Voluntary employee contributions normally are accounted for separately.

**W****W-2 compensation**

Compensation is defined as wages, as defined in Code Section 3401(a) and all other payments of compensation to an employee by the employer (in the course of the employer's trade or business) for which the employer is required to furnish the employee a written statement under

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Code Sections 704(d) and 5051(a)(3). Compensation must be determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Section 3401(a)(2)). Compensation for any self-employed individual shall be equal to his earned income.

**Withholding**

The process of taking money out of a taxable distribution as a prepayment of income taxes due on the event.

Y

**Year of service (generally)**

The computation period of 12 consecutive months, herein set forth, and during which an employee has completed at least 1000 hours of service.