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FINANCIAL TERMS DICTIONARY

100 MOST POPULAR TERMS EXPLAINED

THOMAS HEROLD

Best selling author of "Building Wealth with Silver"

FINANCIAL TERMS DICTIONARY

STANDARD EDITION

The 100 Most Popular Financial Terms Explained

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Financial Terms Dictionary

About this Edition

This standard edition represents a compilation of the most popular 100 financial terms. I have studied hundreds of financial websites and articles and compiled a list of all terms. After deleting the duplicates around 100 terms were left over. Then I put them in alphabetical order and used the description of these terms from the online Financial Terms Dictionary to publish this book.

If a description contains another financial key phrase and it is part of this book, then it's automatically linked to it. Otherwise it links to the online description.

This collection may not contain terms that you would consider popular. If you want them to be included please write me a short message and I will consider it for the next version. If you find any errors, misspellings, wrong or outdated information please let me know.

I hope you enjoy this standard edition of the Financial Terms Dictionary, and the quality of your financial decision will improve upon better understanding of these terms.

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About the Author

Thomas Herold is a successful entrepreneur and personal development coach. After a career with one of the largest electronic companies in the world, he realised that a regular job would never fully satisfy his need for connection on a deep level. The only way to live his full potential was to start building his own business and find new ways to be in service to others.

For over 25 years he has helped many people – including himself – build their dream businesses. Toward that goal, he focuses on education – simplified and enhanced by modern technology. He is the author of 18 books (click here for a list of books at amazon) with over 200,000 copies distributed worldwide.

Other than his passion for creating businesses, Thomas has spent over 20 years in the self-development field. Placing emphasis on the exploration of consciousness and building practical applications that allow people to express their purpose and passion in life, Thomas's work in this area has provided ample and happy proof that this approach works.

He believes that every person has at least one gift and that, when this gift is developed and nourished, it will serve as a fountainhead of personal happiness and help contribute to a better, more sustainable world.

For the past twelve years Thomas has studied the monetary system and has experienced some profound insights on how money and wealth are related.

He has recently committed to sharing this financial knowledge in a new venture – the Financial Terms Dictionary, a hub of financial term descriptions designed to help people get started on their own money makeover and get a financial education in the process.

Thomas's ultimate vision for the Financial Terms Dictionary is to empower people to adopt a wealthy mindset and to create abundance for themselves and others. His ability to explain complex information in simple terms makes him an outstanding teacher and coach.

For more information please visit: financial-dictionary.info

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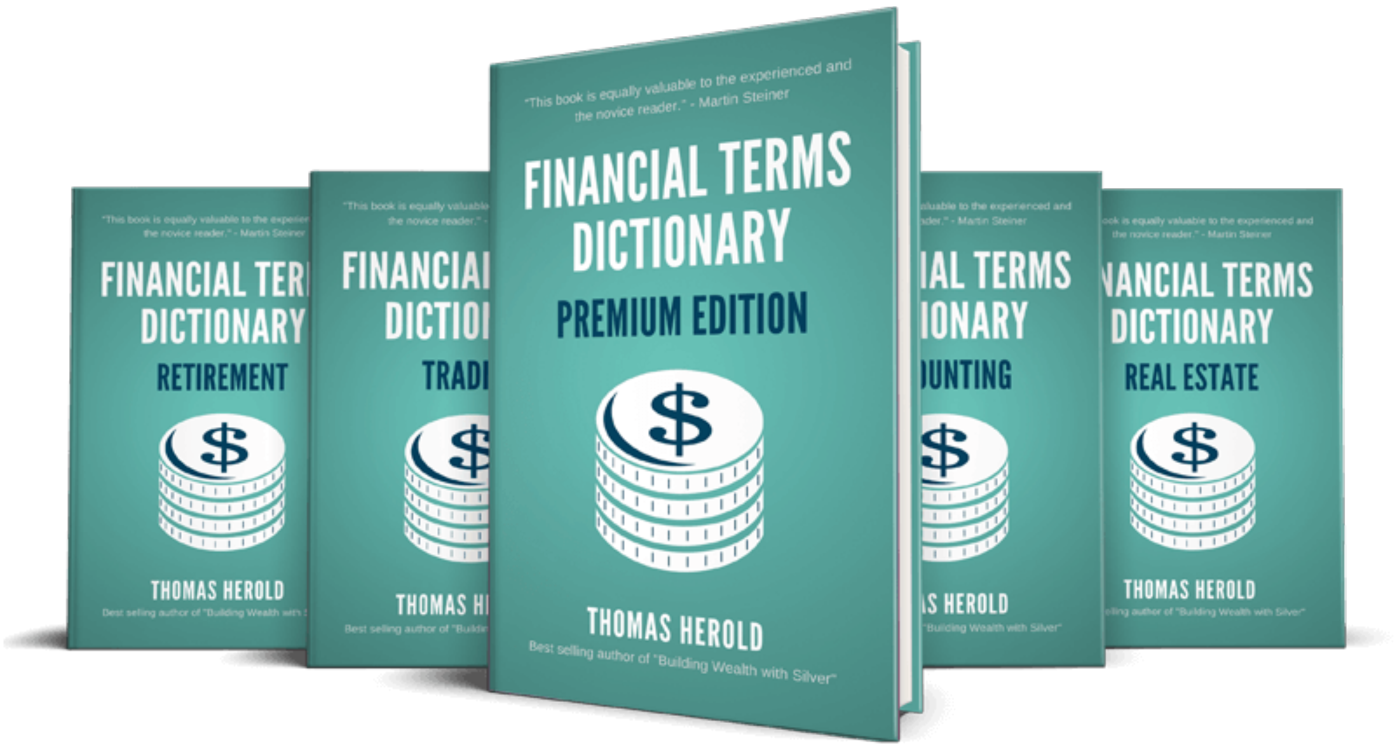

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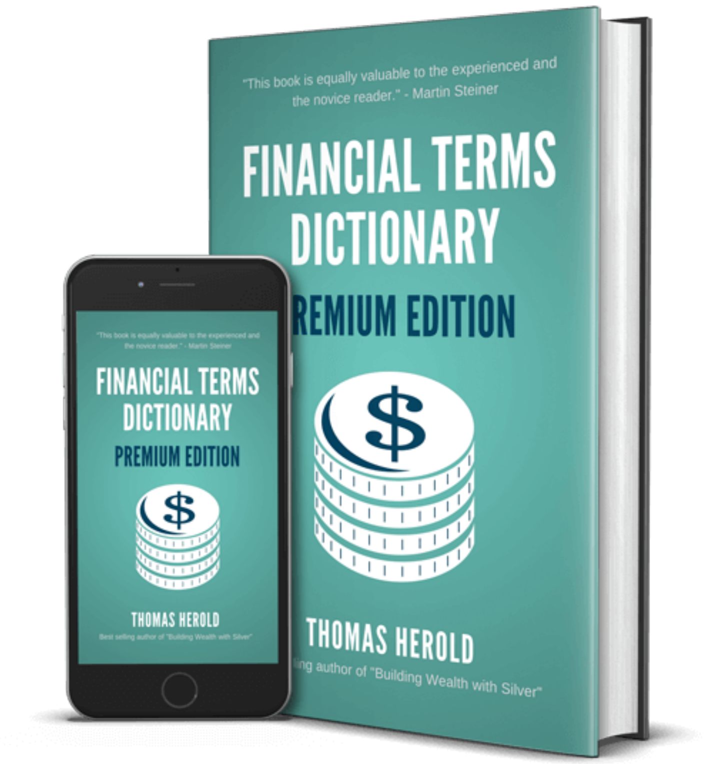

Included Financial Categories

Accounting, Banking, Corporate Finance, Economics, Investments, Laws & Regulations, Real Estate, Retirement, Trading, Acronyms & Abbreviations.

KINDLE EDITION

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What is a 1035 Exchange?

A 1035 Exchange is an exchange process that permits individuals to replace their existing life insurance policy or annuity contract with a similar new contract or policy. Thanks to a provision in the tax code, this can be affected without suffering any negative tax repercussions as part of the trade off exchange. The Internal Revenue Service permits those who hold these kinds of contracts to update their old policies and annuities with those more modern ones that include better benefits, superior investment choices, and lower fees.

The 1035 Exchange is also called a Section 1035 Exchange after the tax code section for which it is named. It literally permits policyholders to transfer their funds out of an endowment, life insurance policy, or annuity into a newer similar vehicle. The way it works is to allow holders to defer their gains. When all of the received proceeds of the original contract become transferred to the newer contract (as there are simultaneously not any loans outstanding on the prior policy), no tax becomes due at point of exchange. Should these proceeds be received and not exchanged according to the 1035 Exchange rules, then all gains obtained out of the first contract become taxable like ordinary income, and not as capital gains.

Gains do not refer to all money received. Instead they are the result of subtracting the gross cash value from the premium tax basis. This basis refers to the original dollar amount put into the contract itself minus the premiums paid for extra benefits or any distributions which qualify as tax free.

In order for this 1035 Exchange to make sense, it has to benefit the policy holder either economically or personally. It is also important for holders to never terminate their in place insurance policies until the newer policy has been fully issued and becomes effective. The holders need to contemplate any health changes since the original policy started. It might cost extra premiums in order for the newer policy to cover them. They might even receive a denial of coverage if the changes in health are too drastic. Similarly, if the holder is well advanced in age, the premium rate may increase.

Some policies also have surrender charges that must be considered. There may be different guarantees, provisions, and interest crediting in the newer policy as well. Most importantly, benefits of the newer policy have to be carefully reviewed. These may change negatively in some cases.

There are rare cases where simply surrendering an existing insurance policy or annuity is more advantageous than engaging in a 1035 Exchange. These primarily occur when the existing contract offers no gain. Sometimes outstanding loans on the initial policy also decrease the benefits of an exchange. In other cases, the original policy may have a "market rate adjustment” type of provision. This would cause the exchange proceeds to be less than those offered in a surrender.

It is usually the case that such a 1035 Exchange will be slower and more involved than simply surrendering the holder’s original policy. It can even require a few months much of the time. This is why the conditions that affect the practicality of the exchange include financial conditions of the initial policy carrier, the country’s economic climate at the time, and the intentions of the policy holder.

The IRS only deems certain exchanges to be considered “like kind” and allowable. These include life insurance for life insurance, life insurance for non-qualified annuity, life insurance for endowment, endowment for non-qualified annuity, endowment for endowment, and non-qualified annuity for non-qualified annuity. They also will allow multiple numbers of existing contracts to be changed into a single newer contract. It does not work in reverse. A single existing contract can not be exchanged in for multiple newer contracts, per the IRS rules and regulations.

What is a 401(k) Plan?

401k retirement plans are specific kinds of accounts that the government established to help individuals to plan and save for retirement. Individuals fund these accounts using pre-taxed dollars from payrolls.

People invest money in these accounts into several different types of investments. These include stocks, mutual funds, and bonds. Gains earned in the account include dividends, capital gains, and interest. These gains do not get taxed until the owners withdraw the funds.

The name of the 401k comes from the portion of Internal Revenue Service Code which pertains to it. This vehicle for saving for retirement began in 1981 when an act of Congress created it.

There are a number of benefits to 401k accounts that recommend them to individuals. Five of these include tax benefits, flexibility of investments, employer matching programs, loan abilities, and portability.

The advantageous tax benefits are one of the main reasons that 401k plans are so popular. Money contributed does not become taxable until individuals withdraw it. Similarly gains accrued in the account are also tax-deferred. Over several decades, this makes a significant difference in the amount of money that people can save.

Investments that the IRS allows in these 401k retirement plans provide some flexibility. Those who do not want to take on much risk can choose to put more of their funds into shorter term bonds which are lower risk. Others who are more concerned with developing wealth over the long term can put a larger percentage of the money into equities like stocks and mutual funds. Company stock can also be acquired at a discount with many employers.

A tremendous edge that these 401k retirement plans provide their owners is the employer match feature. A great number of employers match their employees' contributions as a company benefit. This is done on a percentage basis. Newer employees may receive a 25% of contributions match, while employees who have been at a company longer may receive 50% or even 100% matches. Matches are only made on a certain maximum percentage of income that an employee contributes. This is the closest thing to free money a person can obtain at work.

Loan abilities from 401k retirements are a helpful feature for individuals in times of need. When people find themselves needing money with no other place to turn, the government permits them to obtain 401k loans from the plan. The plan administrator has to approve it as well. Loans from 401k plans are not taxed or penalized so long as they are repaid according to the repayment schedule and terms.

There are no restrictions on the uses of such loans. Some employers have minimum amounts that can be borrowed of $1,000 and a maximum number of loans an employee can take at a time. Sometimes employees will have to get their spouse's written consent before the company will issue the loan.

There are limits on the amount of a balance that can be borrowed. This is typically as much as 50% of the vested balance to no more than $50,000. When an employer will not allow an employee to take out a loan against the plan, hardship withdrawals can be requested. These are taxed and also penalized at a 10% rate.

Portability means the 401k retirement plan can go with the employees as they change jobs. Investors have four different choices for their 401k plan when they move to another company. They can choose to leave the plan with the old employer and pay any administration fees for the account staying there. They might instead do a rollover of their account to the new employer's 401k retirement plan.

A third option is to convert the 401k retirement plan into an Individual Retirement Account. Finally they might decide to close the 401k and receive the proceeds in cash. This would mean all money would be subject to taxes and the 10% penalty fee.

What is a 403(b) Plan?

403(b) plans were created for employees of schools, churches, and tax exempt organizations. Individuals who are eligible may establish and maintain their own 403(b) accounts. Their employers can and often do make contributions to the employees' accounts. Individuals are able to open one of three different types of 403(b)s.

The first is an annuity plan that an insurance company establishes. These types of plans are sometimes called TDAs tax deferred annuities or TSAs tax sheltered annuities. A second plan type is an account which a retirement custodian offers and manages. With these 403(b)s, the account holders may only choose from mutual funds and regulated investment companies that the custodian allows. The final type is a retirement income account. These accounts accept a combination of mutual funds or annuities for the investment choices.

Employers have some control over these accounts. They are able to decide which financial institution will hold the employees' 403(b) accounts. This determines the kind of plan that the employees are able to set up and fund. Employers receive several advantages from choosing to offer a 403(b).

The benefits which they get to offer their employees are worthwhile. This helps to ensure valuable employees stay with the organization. They also enjoy sharing the funding costs between themselves and their employees. Employers may also choose for the 403(b) to only accept employee contributions if they do not wish to participate financially in the account.

Employees also experience several benefits from these types of retirement vehicles. They may contribute tax deferred dollars from their income. They may also contribute taxed dollars to the accounts. In these Roth 403(b)s, all of their earnings accrue tax free for the entire life of the account. Deferred tax payments until retirement typically allow for the employees to pay fewer taxes as they are often in a more advantageous tax bracket at retirement point. Employees may also obtain loans from their 403(b) accounts as they need them.

A variety of non profit organizations may choose to establish such a 403(b) plan for their employees. This includes any 501(c)(3) tax exempt organization, co-op hospital service organizations, public school systems, ministers at churches, Native American public school systems, and (USUHS) Uniformed Services for the University of the Health Sciences.

Such 403(b) plans can obtain a variety of contribution types. Employees may have elective deferral contributions taken out of each paycheck. These are taken out in a pretax dollars arrangement. Employees also have the ability to contribute taxed dollars to the accounts. They have these deducted from their payrolls as well.

Employers may also choose to make contributions which are either discretionary or fixed amounts as they desire. Employees and employers may make contributions to Roth 403(b) accounts. These 403(b) accounts may also receive any combination of the previously mentioned contribution types, which demonstrates their flexibility.

Employees have generous annual contribution limits with these plans. In 2016, they may contribute up to $18,000 (or $24,000 if they are over 50 years old and catching up on contributions for retirement). For 2016, employers may also deposit as much as $53,000 (up to 100% of the employee compensation) as an annual contribution.

Regarding distributions, the rules are comparable to the other types of retirement savings vehicles. Distributions of deferred taxed dollars become taxable like regular income when the employee receives them. If these are taken before the employee turns 59 ½, then the withdrawn dollars are assessed the standard 10% penalty for early withdrawals. There are some exceptions to this penalty for which an employee may qualify. One of these exceptions is if the employee terminates the job even before reaching the age of retirement.