

GLOSSARY OF LEGAL, CHARITABLE AND FINANCIAL TERMS

- A -

ACCOUNT PLAN A **QUALIFIED RETIREMENT PLAN** that establishes a separate account for each employee under which an employer contributes a certain amount each year, but the benefit the employee receives upon death, disability, or retirement is a prorated share of the total amount contributed and the earnings on it. Also called a **DEFINED CONTRIBUTION PLAN**.

ACCOUNTING For settlement matters, a financial report to the beneficiaries (and to the court if there is **PROBATE**) of the assets and income received; the bills, taxes and expenses paid; partial or full distributions made; and the remaining amount held by the **FIDUCIARY**.

ACCUMULATION ANNUITY An **ANNUITY** that accumulates value until such time as the **PAYEE** begins to take payments.

Actuarial Value Generally, the computed future value of an asset that is based on the current value of the asset as adjusted for an assumed interest rate over a certain period of time. The actuarial value also is adjusted for any required payouts from the asset, such as an **ANNUITY** payment or a **UNITRUST AMOUNT**.

ADVANCED MEDICAL DIRECTIVE Any document that gives direction pertaining to a patient's care or removal. **ADVANCE DIRECTIVES, HEALTH CARE POWERS OF ATTORNEY, DO NOT RESUSCITATE ORDERS, NO CODE ORDERS, and LIVING WILLS** are all forms of advanced medical directives.

AFFIDAVIT OF TRUST A sworn statement usually setting forth the name of the person who made the **TRUST**, the serving **TRUSTEE**, that the trust is in effect, and the state law that applies to the trust.

ANNUITANT A person who buys or creates an **ANNUITY** and whose life expectancy is used to determine what the **PAYEE** receives.

ANNUITY A series of periodic payments over one's lifetime or a period of years.

ANNUITY BENEFICIARY The person who receives the balance of an **ANNUITY** after the death of a **PAYEE**.

ANNUITY PLAN A type of **QUALIFIED RETIREMENT PLAN** which holds all the money in one fund and which pays employees a predefined benefit upon retirement, disability, and, in some plans, at death.

APPLICANT For **MEDICAID**, a person applying benefits.

ASSETS For **MEDICAID**, resources and income for purposes of computing a period of ineligibility for dispositions without adequate consideration.

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BARGAIN SALE A sale of property to a third party for less than its **FAIR MARKET VALUE**. The difference between the fair market value and the sales price is treated as a gift. If the sale is to a **QUALIFIED CHARITABLE ORGANIZATION**, the gift is deductible as a charitable gift. If the sale is to an individual, the gift portion is subject to federal **GIFT TAX**.

BASIS See **COST BASIS**.

BENEFICIARY A person designated to receive a benefit from a **TRUST**, **RETIREMENT PLAN**, **ANNUITY**, or **LIFE INSURANCE POLICY**. See also **PRIMARY BENEFICIARY** and **CONTINGENT BENEFICIARY**.

BENEFICIARY DESIGNATION PROPERTY Property, such as life insurance proceeds or retirement plan proceeds, that passes to a named beneficiary upon a certain event.

BEQUEST A gift that is made in a **WILL**, although sometimes the term is used in conjunction with a gift from a **TRUST**.

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CARRYOVER-BASIS The recipient of property receives the same **COST BASIS** in an asset as did the transferor. Beginning January 1, 2010, an heir who inherits an asset also “inherits” the same cost basis that the decedent had prior to the decedent’s death. The carryover-basis law provides partial relief by allowing a limited step-up in basis for certain assets that were owned by the decedent at his or her death.

CASH OR DEFERRED ARRANGEMENT (CODA) PLAN See **401(K) PLAN**.

CASH SURRENDER VALUE The amount of money that a cash value **LIFE INSURANCE POLICY** is worth when it is surrendered (sold back or canceled) to the issuing life insurance company.

CERTIFICATE OF TRUST See **AFFIDAVIT OF TRUST**.

CHARITABLE LEAD ANNUITY TRUST (CLAT) An **IRREVOCABLE TRUST** that pays to one or more **QUALIFIED CHARITIES** each year a fixed rate or amount based on the value of the assets at the time they were originally contributed to the **TRUST** by the **DONOR**. At the end of the **TRUST TERM**, the remaining assets are returned to the donor or distributed to other individuals whom the donor designated in the trust.

CHARITABLE LEAD TRUST (CLT) An **IRREVOCABLE TRUST** that pays an **ANNUITY** in the case of a **CHARITABLE LEAD ANNUITY TRUST (CLAT)** or a **UNITRUST PAYMENT** in the case of a **CHARITABLE LEAD UNITRUST (CLUT)** to a **QUALIFIED CHARITY**. After the term of the annuity or unitrust payment has ended, the **REMAINDER INTEREST** either reverts to the **TRUST MAKER**, or is retained in trust or paid directly to named beneficiaries.

CHARITABLE LEAD UNITRUST (CLUT) A charitable lead trust (CLT) that pays to a **QUALIFIED CHARITY** each year a fixed percentage of the annual fair market value of the trust assets. This requires a valuation of the assets each year to determine the requisite payment amount. If the trust earns less income than is needed to make the payment to charity, the trustee must use principal to make up the difference. If the trust earns more than the payment amount, then the trust retains the excess, but must pay income taxes on the retained amount.

COMMUNITY PROPERTY PROPERTY In some states, property that is presumed to belong to a husband and wife even if held in one or the other's name. Only ten states allow this type of ownership.

CHARITABLE DEDUCTION A deduction from income, estate, or gift tax that is caused by a donation to a **QUALIFIED CHARITY**.

CHARITABLE REMAINDER ANNUITY TRUST (CRAT) A **CHARITABLE REMAINDER TRUST (CRT)** that pays the noncharitable beneficiaries, at least annually, either a fixed dollar amount or a fixed percentage of the initial value of the assets transferred to the trust. A CRAT is called an "annuity trust" because the amount of the annual payment does not change. The annuity amount must be at least 5 percent of the value of the original assets contributed to the trust, but may not be more than 50 percent of that value.

CHARITABLE REMAINDER TRUST (CRT) An **IRREVOCABLE TRUST** that provides income to one or more beneficiaries for their lifetimes, a fixed term of not more than 20 years, or a combination of the two. Assets, usually cash, securities or real estate, are transferred to the CRT, which pays either an **ANNUITY** or **UNITRUST PAYMENT** to the beneficiaries for the **TRUST TERM**. When the trust term ends, the remaining trust assets (**REMAINDER INTEREST**) pass to the charitable beneficiary. A CRT can be established as a **CHARITABLE REMAINDER ANNUITY TRUST (CRAT)** with a fixed payout or as a **CHARITABLE REMAINDER UNITRUST (CRUT)** with a variable payout.

CHARITABLE REMAINDER UNITRUST (CRUT) A **CHARITABLE REMAINDER TRUST (CRT)** that pays the noncharitable beneficiaries, at least annually, a fixed percentage of the trust assets, valued annually (**UNITRUST AMOUNT**). The unitrust amount varies each year, based on the value of the trust assets. The unitrust percentage must be at least 5 percent and may exceed 50 percent.

COMMUNITY FOUNDATION A **PUBLIC CHARITY** that is funded by many people and groups -- individuals, families, corporations, and nonprofit organizations -- to support a wide range of charitable activity in the communities the foundation serves. Community foundations resemble

PRIVATE FOUNDATIONS because their main activities express their donors' charitable goals by financially supporting other charities. However, they are not subject to the complicated regulations that govern private foundations.

COMMUNITY SPOUSE For **MEDICAID**, the at-home spouse of an institutionalized spouse. A spouse residing in an assisted living facility, but not receiving his or her own Medicaid benefits, is still considered a community spouse.

COMMUNITY SPOUSE RESOURCE ALLOWANCE (CSRA) The amount of resources allowed to be retained by a community spouse without affecting the **MEDICAID** eligibility of the institutionalized spouse.

COMPANY RISK The risk associated with investing in an individual company.

COMPREHENSIVE LONG-TERM CARE INSURANCE POLICY A long-term care policy that covers the full spectrum of care and services currently available.

CONSERVATION EASEMENT An easement placed on real property to preserve its natural resources or beauty. Typically, a landowner grants very specific rights concerning a parcel of land to a qualified recipient (e.g. public agency or non profit land conservancy organization). The easement gives the recipient the right to enforce the restrictions. The recipient does not assume ownership, but does assume long-term responsibility for enforcement and stewardship of the easement.

CONSERVATOR A court-appointed person who manages the financial and business affairs of a legally incapacitated person, such as depositing funds, paying bills, making investment decisions, and so forth.

CONSUMER PRICE INDEX (CPI) An index issued by the U.S Department of Labor Statistics that reflects how the cost of various goods and services has changed since the years 1982 through 1984.

CONTINGENT BENEFICIARY A beneficiary that receives property if the **PRIMARY BENEFICIARY** dies.

COST BASIS Typically a term used to determine the amount of taxable gain or loss upon the sale or other disposition of an asset. Cost basis is amount that an owner initially paid for the asset, plus the cost of any improvements to that asset, less depreciation. Also referred to as basis.

COST-OF-LIVING ADJUSTMENT (COLA) Inflation-adjusted increase for Social Security benefits.

CPI See **CONSUMER PRICE INDEX**.

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DEDUCTIBLE IRA An **IRA** for which contributions are deductible, earnings are tax-deferred, and income taxes are paid when money is distributed.

DEFINED BENEFIT PLAN See **ANNUITY PLAN**; **DEFINED CONTRIBUTION PLAN**; **ACCOUNT PLAN**.

DESIGNATED BENEFICIARY A beneficiary (of a **QUALIFIED RETIREMENT PLAN**) that is an individual or a certain type of **TRUST**.

DISCLAIMER The written unqualified and irrevocable refusal to accept an interest in property. To be useful, a disclaimer may have to meet the requirements of state law, as well as the separate requirements of the Internal Revenue Code.

DONEE The individual or entity who receives a gift.

DONOR-ADVISED FUND A special fund typically set up within a **COMMUNITY FOUNDATION** or within the **PUBLIC CHARITIES** of certain financial services companies. The **DONOR** donates cash or securities to the donor-advised fund and is permitted to recommend how the charity should use the donation. The IRS accepts this sort of arrangement, and permits a charitable deduction at the time of contribution to the donor-advised fund, if the fund treats all the donor's request as to his or her contribution as advisory only; the fund's own governing board must make the final determination.

DO NOT RESUSCITATE (DNR) ORDER A physician-approved order in a health care facility, which tells the medical staff that if the patient goes into life-threatening distress, the staff is not to try to resuscitate the patient. A do not resuscitate order is sometimes called a **NO CODE** order.

DURABLE POWER OF ATTORNEY A delegation of power of one person (principal) to another person (agent) authorizing the agent to act on the principal's behalf; the delegation of power continues even if the principal becomes disabled. The delegation of power ends when the death of the principal is known.

DURABLE POWER OF ATTORNEY FOR HEALTH CARE A document which allows a person, even if disabled, to control his or her health care by putting health care instructions in writing and by designating a surrogate decision maker (agent) to make health care decisions in the event the disabled person cannot.

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EFFICIENT FRONTIER The greatest return an investor can receive from a portfolio given the risk the investor is willing to accept. See also **MODERN PORTFOLIO THEORY**.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) A **STOCK BONUS PLAN** that is mandated to invest primarily in the stock of the employer.

EMPLOYER STOCK OPTION PLAN A fringe benefit (sponsored by an employer) that grants some employees an option to purchase the employer's stock in the future at a predetermined price.

EQUITY-BASED LIFE INSURANCE See **INDEXED LIFE INSURANCE**.

ESOP See **EMPLOYEE STOCK OWNERSHIP PLAN**.

ESTATE PLANNING Thoughtful, deliberate process to ensure that you and the ones you love, as well as your property, are insulated as much as is legally possible from the uncertainties of a complex society.

ESTATE TAX A tax on the transfer of a person's assets at his or her death. This tax is imposed by the federal government as well as a number of states.

EXPECTED RATE OF RETURN The annual return expected from an investment portfolio given the risk an investor is willing to take.

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FAIR MARKET VALUE The price that would be paid between a willing seller and a willing buyer when neither party is under pressure to complete the transaction, and each party has access to all relevant information concerning the asset to be sold.

FEE SIMPLE Full and outright ownership of property.

FIDUCIARY A person who manages the assets of another for the benefit of third parties, at least one of whom is not the fiduciary. A fiduciary is held to a high standard of care because of the special duty of trust that the fiduciary holds.

FINANCIAL WEALTH The sum of the assets a person owns and how those assets are titled.

FLIP CHARITABLE REMAINDER UNITRUST (FLIPCRUT) is a **CHARITABLE REMAINDER UNITRUST (CRUT)** with net income makeup provisions (**NIMCRUT**) that specifically sets forth a triggering event that causes the NIMCRUT to convert or "flip" to a standard charitable remainder unitrust. The triggering event can only be: (1) the sale of unmarketable assets; (2) a specific date; or (3) a single event that is not discretionary or within the control of the trustees or any other person (for example, the donor's marriage, divorce or death, or the birth of a child).

FOCUS INVESTING Holding concentrated positions and betting heavily on those positions.

401(K) PLAN A **PROFIT SHARING PLAN** with the added feature of allowing employees to set aside some of their compensation on a pretax basis.

403(B) PLAN A nonqualified deferred compensation plan which is limited to employees of public educational systems, employees of tax-exempt charitable organizations, self-employed ministers, and employees of Indian tribal governments and which allows investments in annuities and some mutual funds.

457 PLAN A **NONQUALIFIED DEFERRED COMPENSATION RETIREMENT PLAN** for state and local governmental agencies and tax-exempt organizations.

FUNDAMENTAL ANALYSIS Thorough knowledge of a company's current and potential cash flow, management plan, products, assets, and liabilities.

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GENERATION-SKIPPING TRANSFER TAX A federal tax on transfers of property made to a family member who is more than one generation below the **DONOR**. The tax may be assessed upon gifts made while the Donor is alive or at death by **WILL** or **BEQUEST**.

GIFT ANNUITY A contract between a **DONOR** and a **QUALIFIED CHARITY** under which the donor makes an irrevocable gift of property to the charity in exchange for the charity's promise to pay the **ANNUITANT** (usually the donor) a fixed amount for his or her lifetime or for a fixed period of years. The primary benefits of a typical charitable gift annuity contract include a lifetime of income, a current income tax deduction, and avoidance of capital gain taxes. The payments to the annuitant can be either immediate or deferred.

GIFT TAX A graduated tax assessed to a donor by the federal government and many state governments when assets are given from one person to another.

GRANTOR One of the legal names for a person or entity that establishes a **TRUST**.

GRANTOR RETAINED ANNUITY TRUST (GRAT) An irrevocable **GRANTOR TRUST** that pays the **GRANTOR**, at least annually, either a fixed dollar amount or a fixed percentage of the initial value of the assets that the grantor transferred to the **TRUST**. Upon termination of the **TRUST TERM**, which may be for as little as one year, the remaining trust assets (**REMAINDER INTEREST**) are paid directly to, or remain in trust, for the beneficiaries. The **ACTUARIAL VALUE** of remainder interest, which is computed when grantor transfers assets to the **GRAT**, is a taxable gift.

GRANTOR RETAINED UNITRUST TRUST (GRUT) An irrevocable **GRANTOR TRUST** that pays the **GRANTOR**, at least annually, a fixed percentage of the trust assets, valued annually (**UNITRUST AMOUNT**), that the grantor transferred to the **TRUST**. Upon termination of the **TRUST TERM**, the remaining trust assets (**REMAINDER INTEREST**) are paid directly to, or remain in trust, for the beneficiaries. The **ACTUARIAL VALUE** of remainder interest, which is computed when grantor transfers assets to the **GRUT**, is a taxable gift.

GRANTOR TRUST A **TRUST** that is treated as owned by the **TRUST MAKER**, also called the **GRANTOR**, for income tax purposes. A grantor trust may be **REVOCABLE** or **IRREVOCABLE**.

GUARDIAN A court-appointed person who makes decisions pertaining to the personal matters of a legally incapacitated person. See also **CONSERVATOR**.

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HEALTH CARE AGENT See **PATIENT ADVOCATE DESIGNATION**.

HEALTH CARE POWER OF ATTORNEY A **DURABLE POWER OF ATTORNEY** in which the maker appoints someone to make health care decisions on the maker's behalf.

HEIR An individual who receives property of a person upon that person's death. The term heir is usually associated with a **WILL** or **INTESTACY**.

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INCOME IN RESPECT OF A DECEDENT Gross income that the decedent would have received had death not occurred and that was not includible in the decedent's final income tax return. Examples of income in respect of a decedent are **QUALIFIED PLAN** proceeds and installment sales made by the decedent prior to his or her death.

INDEXED LIFE INSURANCE A form of **UNIVERSAL LIFE INSURANCE** that is indexed to the general account earnings of the life insurance company. Also known as **EQUITY-BASED LIFE INSURANCE**.

INDIVIDUAL RETIREMENT ACCOUNT (IRA) A personal retirement account established by federal law. An IRA can be deductible, non-deductible, or a **ROTH IRA**.

INHERITANCE TAX A tax on the receipt of assets from the estate of a deceased person.

INSTITUTIONALIZED SPOUSE For **MEDICAID**, a spouse who is in a nursing home. See also **COMMUNITY SPOUSE**.

INTESTACY State-mandated distribution of assets of a person who dies without a valid **WILL**.

INTRINSIC VALUE The value of a company that is derived from **FUNDAMENTAL ANALYSIS**, which may be different from the value of its stock in the marketplace.

INVESTMENT POLICY STATEMENT A document that sets forth an investor's **TIME HORIZON**, **EXPECTED RATE OF RETURN**, disbursements and contributions which will be made over the time horizon, and **RISK TOLERANCE**.

IRA See **INDIVIDUAL RETIREMENT ACCOUNT**.

IRREVOCABLE TRUST A **TRUST** that cannot be altered or amended by the **TRUST MAKER**.

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JOINT ANNUITY An ANNUITY that pays during the lives of two people and continuing until both are deceased.

JOINT TENANCY WITH RIGHT OF SURVIVORSHIP Property owned by two or more people in which each owns 100% of the asset and which passes by law to the survivor on the death of all other joint tenants.

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LIFE ANNUITY An ANNUITY that pays during the life of the ANNUITANT.

LIFE ANNUITY WITH PERIOD CERTAIN An ANNUITY that pays for a fixed number of years or life, if longer.

LIFE ESTATE An interest in property that grants a person the right to use the property until he or she dies. A life estate can be for the life of one or more persons.

LIFE INSURANCE A legal contract (policy) issued by an insurer that guarantees to pay a certain amount of money (death benefit) to a specified person or entity (beneficiary) when the insured dies.

LIFE SETTLEMENT The purchase of an existing LIFE INSURANCE POLICY that is no longer wanted or needed for more than the policy's current CASH SURRENDER VALUE. See also VIATICAL SETTLEMENT.

LIVING WILL A document giving instructions that, in specific circumstances, the maker, if unable to communicate his or her desires, does not want certain measures taken to prolong his or her life.

LONG-TERM CARE A form of health care that encompasses services directed at chronic, long-term conditions usually associated with long-lasting diseases, disabilities, and the infirmities of aging.

LONG-TERM CARE INSURANCE A comprehensive form of individual health insurance that covers long-term care expenses to maintain independence, choice, and economic well-being.

LOOK-BACK DATE The date on which the application for MEDICAID is filed after a period of LONG-TERM CARE institutionalization of the applicant.

LOOK-BACK PERIOD The period preceding a person's application for MEDICAID (beginning at the LOOK-BACK DATE and extending back 60 months). The person's financial records are subject to examination to determine eligibility for Medicaid. The look back is for all transfers in the prior 60 months, whether to individuals or trusts.

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MARKET RISK The general risk of investing in the financial markets.

MATURITY DATE The date mandatory payments are made from an **ANNUITY**.

MEDICAID Federal health insurance that is available to certain low-income individuals and families who fit into an eligibility group as defined by federal and state law.

MEDICARE The federal health insurance program for elderly persons, usually 65 years and older. Medicare is a safety net of health care coverage for qualifying individuals. It has two parts: A and B. Part A is hospital insurance protection. Part B, which is medical insurance, covers physicians' services, outpatient hospital care, physical therapy, diagnostic tests, and other services.

MINIMUM MONTHLY MAINTENANCE NEEDS ALLOWANCE For **MEDICAID**, the amount of income a community spouse may retain each month for his or her own living expenses.

MODERN PORTFOLIO THEORY A theory by which an investor seeks a diversified portfolio of investments to have the most return for the risk he or she is willing to incur. See also **EFFICIENT FRONTIER**.

MONEY PURCHASE PENSION PLAN An **ACCOUNT PLAN** that requires annual mandatory contributions by an employer that are tied to a formula based on something other than profits.

MONTE CARLO SIMULATION A calculation of all the potential outcomes for a particular portfolio in a given year or years to estimate the probability of exceeding various **TARGET RATES OF RETURN**.

MORTALITY TABLE A table (created by an insurance company) that predicts the chances of a person's death in any given year.

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NIMCRUT A **CHARITABLE REMAINDER UNITRUST (CRUT)** with Net Income Makeup Provisions. It pays out the lesser of all the trust income or the required pay-out percentage (a minimum of 5% of the annually revalued assets). A standard CRUT requires that the **UNITRUST PAYMENT** be made even if the trust does not have sufficient income, thus reducing principal. In contrast, if the assets in a NIMCRUT do not produce sufficient income to make a payment, it can be "made up" at a later date when the trust has sufficient income.

NO CODE ORDER See **DO NOT RESUSCITATE ORDER**.

NONDEDUCTIBLE IRA An **IRA** in which contributions are not deductible and earnings are tax-deferred. Upon withdrawal, only the earnings are subject to income taxation.

NONQUALIFIED CHARITY A **TAX-EXEMPT ORGANIZATION** that does not offer tax advantages to **DONORS** who make gifts to it.

NONQUALIFIED DEFERRED COMPENSATION RETIREMENT PLAN A plan established by an employer, usually for executives or highly compensated employees, whereby the employer promises to pay income at a future date. The amount owed is not tax-deductible by the employer until paid, at which time the employee must pay income taxes on the amounts received.

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PATIENT ADVOCATE DESIGNATION A written designation (made when a person is competent) meeting the requirements of state law and naming someone to make medical decisions for the person when that person cannot make his or her own decisions. Also called a **HEALTH CARE POWER**.

PAYEE Person who receives periodic payments from an **ANNUITY**.

PENSION PLAN See **ANNUITY PLAN**.

PERIOD CERTAIN ANNUITY An **ANNUITY** that pays for a period of time.

PERSONAL WEALTH The sum of a person's experience, knowledge, and thoughts.

PLANNED GIVING A structured process for a charitably-minded **DONOR** to make major charitable gifts that integrates sound personal, financial, and estate-planning concepts with the donor's desires for lifetime or **TESTAMENTARY** giving.

POOLED INCOME FUND An investment fund for the benefit of a **PUBLIC CHARITY** made up of transfers by many persons to the fund, each of whom receives a life income interest in exchange for their transfers. The income interest is based on the value of the transfer into the fund and on the income earned by the fund.

POUR-OVER WILL A **WILL** that directs property to the maker's **TRUST**; these assets pour over from a will to a trust. Assets that pour-over to a trust are subject to the **PROBATE**.

PRIVATE FOUNDATION A nongovernmental, **TAX-EXEMPT ORGANIZATION** with funds (usually from a single source, such as an individual, family, or corporation) that is managed by its own trustees or directors. Private foundations were established to maintain or aid social, education, religious, or other charitable activities serving the common welfare, primarily through the making of grants. They are subject to more stringent rules than are **PUBLIC CHARITIES**. Donations to a private foundation that is a **QUALIFIED CHARITY** allow donors to receive income, estate, and gift deductions.

OPERATING FOUNDATION A **PRIVATE FOUNDATION** that conducts charitable programs and which does not usually making grants to other charitable organizations. A private operating foundation is treated like a **PUBLIC CHARITY** for tax purposes, even though it is regulated by the stringent private foundation rules.

PRIVATE NONOPERATING FOUNDATION A **PRIVATE FOUNDATION** that does not actively conduct charitable programs, it receives its contributions from a family, an individual, or company, which it then invests. A nonoperating private foundation generally makes grants to **QUALIFIED CHARITIES**. The tax benefits of making donations to nonoperating private foundations are more restrictive than tax benefits of making donations to **OPERATING FOUNDATIONS** and **PUBLIC CHARITIES**.

PRIMARY BENEFICIARY A beneficiary who is first in line to receive property.

PROBATE An administrative process often subject to court supervision to ensure that a deceased person's **WILL** is valid, debts are paid, and property is properly distributed.

PROFIT SHARING PLAN An **ACCOUNT PLAN** in which an employer can make discretionary contributions for the benefit of all eligible employees based on a percentage of their compensation.

PRUDENT INVESTOR RULE In some states, the standard by which a **FIDUCIARY** is judged in the performance of his or her duties. The fiduciary must, in effect, act in the same manner as a professional fiduciary would act under similar circumstances.

PUBLIC CHARITY A **TAX-EXEMPT ORGANIZATION** that is not a **PRIVATE FOUNDATION**, either because it is "publicly supported" (that is, it normally derives at least one-third of its support from gifts and other qualified sources) or it functions as a "supporting organization" to other public charities. Some public charities engage in grantmaking activities, but most engage in direct service activities. Public charities are eligible for maximum tax-deductible contributions from the public and are not subject to many of the rules and restrictions of private foundations. They are sometimes referred to as "public foundations."

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QUALIFIED CHARITY A **TAX-EXEMPT ORGANIZATION** that allows a **DONOR** to qualify for income, gift, and estate tax deductions. A qualified charity can be a **PUBLIC CHARITY** or a **PRIVATE FOUNDATION**.

QUALIFIED PERSONAL RESIDENCE TRUST (QPRT) An **IRREVOCABLE TRUST** to which a **TRUST MAKER** (or the trust maker and the trust maker's spouse) transfers a personal residence. The **BENEFICIARIES** are usually the trust maker's children. The trust maker can continue to live in the residence rent-free for the **TERM OF THE TRUST**. The value of the **REMAINDER INTEREST** is a

taxable gift, but is lower than the **FAIR MARKET VALUE** of the residence because of the beneficiaries can only fully own the residence after the term of the trust expires. A QPRT is subject to complex rules.

QUALIFIED RETIREMENT PLAN An employer-sponsored retirement plan for which contributions by the employer are tax-deductible, earnings grow tax-deferred, and the employee pays income taxes when funds are withdrawn.

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RATING SERVICE A company that regularly evaluates insurance companies as to their financial strength and longevity.

REASONABLE PERSON STANDARD In some states, the standard by which a fiduciary is judged in the performance of his or her duties. The fiduciary must act in the same manner as a reasonably prudent person would act under similar circumstances.

RECIPIENT For **MEDICAID**, person receiving benefits. See also **APPLICANT**.

REMAINDER INTEREST An interest in property or a **TRUST** that remains after the rights of prior **BENEFICIARIES** have expired. A typical remainder interest in real property is created by a deed that allows a person to use the property for life or a **TERM OF YEARS**. At the death of the holder or at the expiration of the term of years, the real property reverts to the holder of the remainder interest. The holder of the remainder interest could be the person who originally granted the life estate or term of years, or could be a third party. In a trust, the remainder interest consists of the assets that remain after the **TRUST TERM** has expired.

REQUIRED MINIMUM DISTRIBUTION For an **IRA** or a **QUALIFIED RETIREMENT PLAN**, the amount that must be withdrawn in each calendar year in which a distribution is required.

RESOURCES For **MEDICAID**, assets of an individual or family as of the first day of any calendar month, or as of the date of application if not counted as income for the month of application.

RETIREMENT INCOME POOL All the sources of a person's retirement income.

RETIREMENT TIME HORIZON The length of time a person will live.

REVOCABLE LIVING TRUST A **TRUST** that allows its maker to change its terms, revoke it, and freely transfer assets held in the trust.

RIDERS Options that can be added to an insurance policy and that could affect the premium.

RISK TOLERANCE The amount of risk that an investor is willing to take. Typically, the greater the risk, the greater the potential return and the greater the potential loss.

ROTH IRA An **IRA** for which contributions are not deductible, the earnings grow tax-deferred, and withdrawals may be entirely tax-free.

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SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES (SIMPLE) 401(K) PLAN A 401(K) PLAN for employers with 100 or fewer employees.

SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES (SIMPLE) IRA A type of simplified **401(K) PLAN** that allows small employers to set up **IRA** accounts for employees and to make mandatory contributions.

SECOND-TO-DIE LIFE INSURANCE POLICY An **INSURANCE POLICY** that covers two lives, paying a death benefit only after both insureds have died.

SECONDARY GUARANTEES An insurance company guarantee that the face amount of a **UNIVERSAL LIFE INSURANCE POLICY** will not require additional premiums.

SEP IRA See **SIMPLIFIED EMPLOYEE PENSION PLAN**.

SETTLOR See **TRUST MAKER**.

SIMPLIFIED EMPLOYEE PENSION (SEP) PLAN An **ACCOUNT PLAN** under which an employer makes a contribution to an **IRA** for each eligible employee, except that the contribution limits are higher than in an **IRA** set up directly by an individual. Employer contributions are optional.

SNAPSHOT DATE For **MEDICAID**, the first date on which an applicant was admitted to a health care facility for 30 continuous days and who then applies for benefits.

SOCIAL SECURITY A program of the federal government that provides retirement, disability, and survivor benefits, as well as **MEDICARE** and supplemental security income benefits.

SOCIAL WEALTH The sum of those people or causes that a person cares about.

STOCK BONUS PLAN A **PROFIT SHARING PLAN** in which the employer is authorized, but not required, to invest in its own securities.

STEP-UP-IN-BASIS When assets are received as a result of a person's death, the **COST BASIS** in those assets is "stepped up" (increased) to the value of the assets at the date of death or, in some cases, the date that is 6 months after the date of death. This results in a tax savings when appreciated property is inherited and subsequently sold, because the gain is the difference between the new "stepped-up" basis and the purchase price.

SUCCESSOR TRUSTEE A **TRUSTEE** who takes over administration of a trust if another trustee can no longer serve.

SUITABLE PORTFOLIO A portfolio that meets an investor's particular needs and **RISK TOLERANCE**.

SURRENDER CHARGES The amount an insurer assesses for excess withdrawals from an **ANNUITY** or its early termination.

SURVIVOR LIFE INSURANCE POLICY See **SECOND-TO-DIE LIFE INSURANCE POLICY**.

- T -

TARGET RATE OF RETURN The before-tax assumption for the return on investment which is utilized to model annual cash flows throughout a **RETIREMENT TIME HORIZON**.

TAX-DEFERRED ANNUITY The ability of assets held in **ANNUITY** to grow free from income tax until paid out.

TAX-EXEMPT ORGANIZATION A nonprofit organization that is exempt from federal estate tax. It may be a **QUALIFIED CHARITY** or **UNQUALIFIED CHARITY**, depending on what type of organization it is.

TAX-QUALIFIED LONG-TERM CARE POLICY A form of **LONG-TERM CARE INSURANCE** for which the premiums can be itemized or deducted and for which benefits are not subject to federal income taxes.

TENANCY BY THE ENTIRETY Almost identical to **JOINT TENANCY WITH RIGHT OF SURVIVORSHIP** but limited to married couples.

TENANCY IN COMMON A form of ownership of property that has two or more owners, each owning an equal share in the property, although the percentage of ownership can be changed by agreement.

TERM LIFE INSURANCE A **LIFE INSURANCE POLICY** that is beneficial for a specific period of time, with minimal **CASH SURRENDER VALUE**.

TERM OF YEARS An interest in property whereby an individual or entity is given the right to the use of the property for a stated period of time. In a **TRUST**, a term of years typically refers to the period of time a beneficiary has the right to income or trust income. After a term of years ends, the property either reverts to the person who granted the term of years or to other beneficiaries. See **TRUST TERM**.

TESTAMENTARY Pertaining to a **WILL** or planning that comes into existence at a person's death. For example, a testamentary trust is a **TRUST** created by a will.

TESTAMENTARY FOUNDATION A **PRIVATE FOUNDATION** that is created in a **WILL** or a **TRUST**, which comes into existence after the death of the will or **TRUST MAKER**.

TIME HORIZON In investing, the time necessary to meet a particular goal.

TRUST Generally, a written set of instructions by a **TRUST MAKER** that appoints a **TRUSTEE** to administer property held in the name of the trustee for the benefit of the trust's **BENEFICIARIES**.

TRUST MAKER One who establishes a **TRUST**. Sometimes called a **GRANTOR**, **TRUSTOR**, or **SETTLOR**.

TRUSTEE A person who manages the assets held in a **TRUST** according to the instructions in the trust. A trustee is a **FIDUCIARY**.

TRUSTOR See **TRUST MAKER**.

TRUST TERM OR TERM OF TRUST The period of time that a **TRUST** is in existence or the period of time that a **BENEFICIARY** has a right to trust principal or income.

- U -

UNDERWRITING An insurance company's process of assessing risk to determine an applicant's eligibility and premium for insurance.

UNIVERSAL LIFE INSURANCE A cash-value-building **LIFE INSURANCE POLICY** that provides flexibility by giving the policy owner the ability to set and vary premium levels, payment schedules, and death benefits, within certain limits.

UNITRUST AMOUNT A payment based on a fixed percentage of **TRUST** assets that is paid at least annually. The percentage of trust assets remains the same for the **TERM OF THE TRUST**, but since the trust assets are valued annually, the actual payment amount may differ from year to year. For example, if the fixed unitrust percentage is 5% and the initial value of the trust assets is \$1,000,000, the initial unitrust amount is \$50,000. If the value of the assets increases to \$1,200,000 in the next year, the unitrust payment would then be \$60,000 (5% of \$1,200,000).

- V -

VARIABLE LIFE INSURANCE A type of **UNIVERSAL LIFE INSURANCE** that allows the cash value to be invested in a separate account at the policy owner's direction.

- W -

WILL Also called a Last Will and Testament, the legal expression or declaration of a person's wishes as to the disposition of his or her property on death. A will must meet certain legal standards to be valid and is subject to **PROBATE**.