



# **Glossary of Terms**

## **Investments, Retirement Industry, Economics**

*Last Updated: December 2025*

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## Investments

**Absolute Return Fund:** see Hedge Fund.

**Active Management:** is a form of investment management that involves buying and selling financial assets with the objective of earning returns greater than a specified benchmark. This is measured by the investment's Alpha. See below for definition.

**Active Management Return:** is the difference between a portfolio's return and the benchmark's return.

**Active Management Risk:** is the risk taken by an active portfolio manager to earn active management returns by taking positions different from the benchmark; typically measured by the standard deviation of active management returns.

**Actuary:** is a person or firm that specializes in estimating the liabilities associated with a benefit plan or an insurance trust.

**Agency Conflict:** is the potential for conflict of interest between an agent and the person or organization for whom the agent is acting.

**Alpha:** describes an investment strategy's ability to beat the market, or its "edge." Alpha is thus also often referred to as "excess return" in relation to that investment's stated benchmark.

**Alternative Investments:** is a term used to categorize assets other than traditional publicly traded stocks and bonds, including but not limited to Real Estate, Hedge Funds, Private Equity, Private Debt, GTAA & Risk Parity, Infrastructure, TIPS, Inflation-Linked Bonds, Commodities, Opportunistic Investments.

**Asset Allocation:** is the process of determining the desired division of an investor's portfolio among available asset classes.

**Asset Class:** is a broadly defined generic group of financial assets, such as stocks or bonds.

**Benchmark:** is a portfolio with which the investment performance of an investor can be compared for the purpose of determining investment skill. A benchmark portfolio represents a relevant and investable alternative to the investor's actual portfolio and is similar in terms of risk exposure.

**Benefits:** are periodic payments promised or expected to be made to the designated beneficiaries of a pool of assets.

**Bond (also Fixed-Income Security):** is a type of investment in which the holder (purchaser of bond) lends money to another entity and is then entitled to periodic payments of interest and a return of the capital at a specified time in the future.

- **Types of Bonds:**
  - **Corporate Bonds/Corporate Credit Bonds:** Bonds issued by a corporation
  - **Municipal Bonds:** Bonds issued by municipalities (e.g., New York State)
  - **Treasury Bonds:** Bonds issued by the US federal government

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- **Sovereign Bonds:** Bonds issued by a foreign government
  - **Mortgage-backed Securities (MBS):** investment products similar to bonds. Each MBS consists of a bundle of home loans and other real estate debt bought from the banks that issued them. Investors in mortgage-backed securities receive periodic payments similar to bond coupon payments.
  - **Zero Coupon Bonds:** a debt security that does not pay interest but instead trades at a deep discount, rendering a profit at maturity, when the bond is redeemed for its full face value.
  - **Treasury Inflation Protection Securities (TIPS):** Issued by the US Treasury and is designed to provide investors with a real rate of return and compensation for potentially rising inflation over the life of the security.
  - **Bond Rating:** is the method of evaluating the possibility of default by a bond issuer. Standard & Poor, Moody's and Fitch are rating agencies that analyze the financial strength of each bond issuer and assign ratings that range from - AAA (highly unlikely to default) to D (in default).
    - **Investment Grade: AAA and BBB:** Bonds that rating agencies have judged to be of high credit quality.
    - **High Yield Bonds:** BB or lower bonds that pay a higher yield to compensate for greater risk.
  - **Core Bonds:** typically provide investors with broad exposure to the investment-grade area of the bond market through investments in a wide variety of market segments (most notably, [U.S. Treasuries](#), [mortgage-backed securities](#), and investment grade [corporate bonds](#)).
  - **Duration:** measures bonds price-sensitivity to changes in interest rates. A duration of 5, mean that a 1% rise in interest rates will result in the price of the bond price declining by 5%.
  - **Term to Maturity:** is the length of time during which the owner will receive interest payments on the investment. When the bond reaches maturity the principal is repaid.
  - **Yield:** refers to the earnings generated and realized on an investment over a particular period of time. It's expressed as a percentage based on the invested amount, current market value, or face value of the security.
  - **Yield to Maturity:** is the total rate of return that will have been earned by a bond when it makes all interest payments and repays the original principal.

**Buyout:** is a form of private equity in which a partnership buys all the shares of a public company, usually taking on a large debt, to operate the company privately with the intention of eventually making a profit by taking the company public again or selling part or all of it to another business.

**Commingled Fund:** is an investment vehicle that sells units of ownership in itself to one or more investors and uses the proceeds to purchase financial assets for the benefit of the investors. The investors have a pro rata claim on the assets of the fund proportional to their unit ownership.

**Commodities:** is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. Examples: Oil, Copper, Gold, Soy Beans, Pork Bellies.

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**Common Stock (also Equity; Stock):** is the legal representation of an ownership position in a corporation.

**Contributions:** are money added to a pool of assets for the purpose of investment and, eventually, payment of benefits.

**Correlation:** is a statistical measure of the covariation of two random variables (i.e., how much two variables change together).

**Custodian Bank:** is a type of bank that provides safekeeping of financial securities for an investor, including the related accounting and reporting services.

**Derivative:** is a security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage, which means any investment or strategy that amplifies returns. Typically, it involves borrowing or the use of (non-collateralized) derivatives.

**Diversification:** is the process of investing in more than one type of asset to reduce the risk of the entire portfolio.

**Earnings per Share (EPS):** is the profit after tax of a company divided by the number of shares outstanding.

**Endowment:** is a gift, usually to an educational institution, whose purpose is to provide funding for a particular mission in perpetuity. Collectively, an aggregate of such gifts being managed in a single strategy.

**Equity:** represents shares in the ownership of a company's assets and earnings. Also known as stocks. Stock investments are often categorized in a few different ways:

- **By capitalization:** Price of a company's stock multiplied by number of shares outstanding.
  - **Large Cap:** Range from \$5-300 Billion
  - **Mid Cap:** Range from \$2-5 Billion
  - **Small Cap:** Range below \$2 Billion
- **By the expected behavior of the stock price and/or expected financial performance of a public company:**
  - **Growth:** seeks companies that can grow faster than the market and peers, expecting the stock price to outperform.
  - **Value:** seeks undervalued companies relative to their intrinsic value where one expects outperformance as stock price increases to reflect underlying value.
- **By geography:**
  - **Domestic Equity:** invests in securities of companies from home country only.
  - **International Equity:** invests in securities of companies from all countries except the investor's home country.
  - **International Developed:** invests in companies in developed foreign markets. A developed market is a country with a highly industrialized economy, typically with a large service sector. A developed country will tend to have a high GDP per capita income, and built out infrastructure (transportation, communications) compared to a developing country. (Japan, UK, Germany)

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- **Emerging Market:** invests in companies in developing countries. An emerging market is a country that has some characteristics of a developed market but does not meet standards to be a developed market. This includes countries that may be developed markets in the future or were in the past. (Mexico, Russia, Turkey)
  - **Frontier:** invests in countries that are in the early stages of developing markets. A frontier market is a type of developing country which is more developed than the least developing countries, but too small to be generally considered an emerging market. (Vietnam, Argentina, Nigeria)
  - **Global Equity:** invests in securities of companies in all parts of the world, including home country. Global equity portfolios typically hold about 40-60% large cap US stocks.

**Expected Return:** is the return on a security (or portfolio) that an investor anticipates receiving over a given time horizon.

**Financial Asset (also Security):** is a legal representation of the right to receive prospective future benefits under stated conditions.

**Fixed-Income Security:** see Bond.

**Foundation:** is an entity that has some public mission (e.g., to cure a given disease) and provides grants to other entities to further that mission (e.g., by conducting scientific research to find a cure). It owns a pool of assets that are invested to provide income to fund that mission.

**Funded Ratio (also Benefit Security Ratio):** is the ratio of the value of a fund's assets to the value of the fund's liabilities.

**General Partner:** is an individual or firm that sources and obtains financing for the purchase of an asset and then manages that asset on behalf of other providers of capital (the limited partners).

**Growth Stocks:** represent a segment of an equity market characterized by the stocks of companies that have experienced or are expected to experience earnings per share growth higher than the market as a whole. They also tend to display high price-to-earnings ratios relative to the market. Also called "glamour stocks."

**Hedged/Unhedged:** Specifies whether foreign currency exposures are hedged into the US dollar or not. Unhedged returns are enhanced (hurt) when a foreign currency is strengthening (weakening) vs. the US dollar.

**Hedge Fund:** is a form of active management distinguished by a lack of traditional guidelines or benchmarks; a hedge fund typically uses derivatives, leverage, and/or short selling. The term is often synonymous with absolute return fund.

**Indexing:** see Passive Management.

**Information Ratio (IR):** is a risk-adjusted measure of a portfolio's active management performance compared to its benchmark. The IR is often used as a measure of a portfolio manager's level of skill and ability to generate excess returns relative to a benchmark, but it also attempts to identify the consistency of the performance by incorporating a tracking error, or standard deviation component into the calculation.

**Investable Universe:** is the aggregate of securities that is appropriate and available for selection under a particular investment mandate.

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**Investment Committee:** is a group of individuals who are responsible for determining the investment policy of a fund or an organization.

**Investment Consultant:** is a professional (usually associated with a firm) who offers advisory services to a fund or organization, most often in the areas of asset allocation, investment policy, and manager selection.

**Investment Manager:** is a person or entity that creates and manages portfolios of securities for clients with money to invest.

**Investment Policy:** is a component of the investment process that involves determining a fund or organization's mission, objectives, and attitude toward the trade-off between expected return and risk.

**Investment Policy Statement (IPS):** is a formal written document describing a fund or organization's investment policy.

**Investment Return:** is the percentage change in the value of an investment in a financial asset (or portfolio of financial assets) over a specified time period.

**Investment Risk:** is the potential for loss accepted by an investor in the pursuit of investment return; alternatively, the uncertainty associated with the end-of period value of an investment.

**Liability:** is the present value of the accrued benefits promised to the beneficiaries of a fund. This term is usually used in the context of a defined benefit plan.

**Limited Partner:** is an individual or entity that provides equity financing to a general partner for the purchase of an investment but does not participate in the ongoing management of the investment.

**Liquidity:** is a property of a security that allows investors to convert the security to cash at a price similar to the price of the previous trade in the security (assuming that no significant new information has arrived since the previous trade).

**Mandate:** is the strategy or performance benchmark used by an investment manager on behalf of and at the direction of a client.

**Market Capitalization:** is the aggregate market value of a security, equal to the market price per unit of the security multiplied by the total number of outstanding units of the security.

**Market Cycle:** is the period of time over which a particular security market moves from one peak to another or one trough to another.

**Market Index:** is a collection of securities whose values are averaged to reflect the overall investment performance of a particular market for financial assets.

**Money Market Fund:** is an open-end mutual fund that invests in highly liquid and safe securities and pays interest.

**Money-Weighted Rate of Return:** is a measure of performance of an investment or an investment account. It calculates the performance of an investment that takes the size and timing of deposits or withdrawals into consideration. This measure is calculated differently than Time-Weighted Rate of Return (see definition).

**Mutual Fund:** is a financial vehicle that pools assets from shareholders to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors.

**Passive Management (also Indexing):** is the process of buying and holding a well-diversified portfolio designed to produce substantially the same returns as a specified market index.

**Peer Group:** is a set of investors (funds or managers) whose returns are used for a comparison with those of a given fund to determine how the given fund ranks among similar funds.

**Performance Appraisal:** is the part of the performance evaluation process that attempts to determine whether the investment returns over an evaluation period have been achieved by skill or luck.

**Performance Attribution:** is the part of the performance evaluation process that identifies sources of returns for a portfolio relative to a designated benchmark over an evaluation period.

**Performance Evaluation:** is a component of the investment process involving periodic analysis of how a portfolio performed in terms of both returns earned and risks incurred. Following are many ways to evaluate performance of an investment:

- **Allocation Index Return:** is the return if all the assets in an investment account were invested in index funds using your actual portfolio weights. Objective: Measure your managers' aggregate value added/lost.
- **Policy Index Return:** is the return if all the assets in an investment account were invested in index funds at your policy weights. Objective: Identify value added/lost from policy drift and manager contribution.
- **Attribution:** is an analytical technique used to evaluate the performance of a portfolio relative to a benchmark. A proper attribution highlights where value was added or subtracted because of the manager's decisions.
- **Rank:** is the relative position of a single observation in a larger population. Universe rankings range from 1 to 100, with 1 being the best and 100 the worst.
- **Universe:** is the list of all assets eligible for inclusion in a portfolio, or group of portfolios eligible for inclusion in a distribution.
- **Beta:** measures the volatility or systematic risk and is equal to the change in the fund's performance in relation to the change in the assigned index's performance.
- **Sharpe Ratio:** is a measure of the excess return or risk premium per unit of risk in an investment asset or trading strategy.
- **Standard Deviation:** is a statistical term that describes the distribution of results. It is a commonly used measure of volatility of returns of a portfolio, asset class, or security. The higher the standard deviation the more volatile the returns are.
- **Up/Down Capture Ratio:** Up-Capture Ratio is the statistical measure of an investment manager's overall performance in up-markets. It is used to evaluate how well an investment manager

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performed relative to an index during periods when that index has risen. The opposite is Down-Capture ratio, which is how that manager performed relative to an index when that index has fallen. Both ratios should be considered when evaluating an investment manager's performance.

**Policy Asset Mix:** is a set of asset classes and desired percentage allocations to each such that the total portfolio displays the investor's desired risk and expected return profile; also referred to as the "policy portfolio," "policy benchmark," "policy asset allocation," or "strategic asset allocation."

**Price-to-Earnings (P/E) Ratio, Forward:** is a version of the ratio of price-to-earnings that uses forward earnings for the P/E calculation. Often used in conjunction with *Trailing Price-to-Earnings Ratio* (see definition) to make a better judgment about a company's stock price.

**Price-to-Earnings (P/E) Ratio, Trailing:** is a relative valuation multiple that is based on the last 12 months of actual earnings. It looks at a company's share price in the market relative to its past year's earnings per share and is considered a useful indicator to standardize and compare relative share price between time periods and among companies. However, unlike the *Forward Price-to-Earnings Ratio* (see definition), it is limited in that past earnings may not accurately reflect the current or future earnings situation of the company.

**Private Equity:** is a broad asset class generally involving buyouts, venture capital, and distressed debt converted to equity.

**Real Estate:** is an investment in land and physical structures intended to provide a stream of rental or lease income and possibly capital appreciation.

**Real Assets:** is any asset, for which the returns are correlated to inflation. Examples include real estate, TIPS, infrastructure and commodities.

**Rebalancing:** is the process of buying and selling assets to restore a fund to its policy asset mix after market movements or net cash flows have changed the actual market weights of the various asset classes.

**Relative Performance:** is the difference between a portfolio's return and the benchmark's return.

**Risk Budgeting:** is a risk management technique in which assets are allocated efficiently so that the expected return of each asset is proportional to its contribution to portfolio risk.

**Risk Management:** is a part of the investment process in which the risks of a portfolio are identified and quantified; then, strategies are developed to control those risks.

**Risk Tolerance:** is the trade-off between risk and expected return demanded by a particular investor.

**Scenario Analysis:** is a process whereby, for the purpose of designing appropriate investment strategies, an investor considers several possible future economic investment environments and the likelihood of those environments occurring.

**Security:** see Financial Asset.

**Separately Managed Account (SMA):** is an investment vehicle that takes in funds from a single investor and uses the proceeds to purchase financial assets for the sole benefit of that investor. The investor directly owns all assets held in the account. Also called "separate account."

**Target Date Fund:** is an investment offered to participants based on an expected “target” retirement date. The asset allocation of a target date fund is typically designed to gradually and automatically shift to a more conservative profile so as to minimize risk when the target date approaches. The fund follows a predetermined “glidepath” that shifts the assets from equities to fixed income over time. They appeal to those who like the convenience of putting their investment activities on autopilot in one investment vehicle. They usually mature in 5-year intervals (e.g., 2030, 2035, 2040, etc.) and are named by the year in which the investor plans to begin taking distributions.

**Time-Weighted Rate of Return:** is a measure of the compound rate of growth of an investment or portfolio. It is often used to compare returns of investment managers because it eliminates the distorting effects on growth rates created by inflows and outflows of money.

**Time Value of Money:** is a concept that a sum of money is worth more now than the same sum will be at a future date due to its earning potential in the interim. It is a core principle of finance.

**Tracking Error:** is the divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge fund, mutual fund, or exchange-traded fund (ETF) that did not work as effectively as intended, creating an unexpected profit or loss. Tracking error is reported as a standard deviation percentage difference, which reports the difference between the return an investor receives and that of the benchmark they were attempting to imitate.

**Underweight Portfolio:** occurs when the percentage, or weight, of a particular security within the managed portfolio is lower than what is held in the benchmark portfolio. For example, if the benchmark portfolio held a particular security with a weight of 20% and the investor portfolio only held a 10% weight in that security, it would be deemed to be underweight in the security in question.

**Unearned Income:** refers to any income that is not acquired through work. Put simply, unearned income is any money you earn by doing nothing. This is in contrast to earned income, which is any compensation received for performing a service like work. There are many types of unearned or passive income, including interest from savings accounts, bond interest, alimony, and dividends from stocks.

**Unsecured Debt:** refers to loans that are not backed by collateral. If the borrower defaults on the loan, the lender may not be able to recover their investment because the borrower is not required to pledge any specific assets as security for the loan. Because unsecured loans are considered riskier for the lender, they generally carry higher interest rates than collateralized loans.

**Valuation:** is the analytical process of determining the current (or projected) worth of an asset or a company. There are many techniques used for doing a valuation. An analyst placing a value on a company looks at the business's management, the composition of its capital structure, the prospect of future earnings, and the market value of its assets, among other metrics.

**Volatility:** is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security. Volatility is often measured from either the standard deviation or variance between returns from that same security or market index. In the securities markets, volatility is often associated with big swings in either direction. For example, when the stock market rises and falls more than one percent over a sustained period of time, it is called a volatile market.

**Volume:** is the amount of an asset or security that changes hands over some period of time, often over the course of a trading day. For instance, a stock's trading volume refers to the number of shares traded between its daily open and close.

**Warrant:** is a derivative that give the right, but not the obligation, to buy or sell a security—most commonly an equity—at a certain price before expiration. The price at which the underlying security can be bought or sold is referred to as the exercise price or strike price.

**White Knight:** is a hostile takeover defense whereby a 'friendly' individual or company acquires a corporation at fair consideration when it is on the verge of being taken over by an 'unfriendly' bidder or acquirer. The unfriendly bidder is generally known as the "black knight." Although the target company does not remain independent, acquisition by a white knight is still preferred to the hostile takeover. Unlike a hostile takeover, current management typically remains in place in a white knight scenario, and investors receive better compensation for their shares.

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## Retirement Industry

**401(k) Plan:** is a company-sponsored defined contribution retirement savings plan to which employees can contribute income, while employers may match contributions. It is typically sponsored by a for-profit organization.

**403(b) Plan:** refers to a defined contribution retirement savings plan designed for certain employees of public schools and other tax-exempt organizations, including churches and synagogues. Participants may include teachers, school administrators, professors, government employees, nurses, doctors, librarians, members of the clergy and other employees. RPB's defined contribution plan is a 403(b)(9), which is the Church Plan version of a 403(b).

**Annuity:** refers to an insurance contract issued and distributed by financial institutions with the intention of paying out invested funds in a fixed income stream in the future. Investors invest in or purchase annuities with monthly premiums or lump-sum payments. The holding institution issues a stream of payments in the future for a specified period of time or for the remainder of the annuitant's life. Annuities are mainly used for retirement purposes and help individuals address the risk of outliving their savings.

**Auto-IRA:** is usually a state-run retirement account, and is actually a requirement in some states (e.g. Illinois Secure Choice) if the employer does not offer a workplace retirement plan to its employees.

**Automatic Enrollment:** refers to an organization automatically enrolling, or defaulting, their employees into the organization's retirement plan. While some organizations leave it up to employees to sign up for their retirement plan (opt-in), others automatically enroll them by default. Though employees have the option to back out any time, they tend not to. Companies with automatic enrollment (sometimes called "auto-enrollment") average a very high 92% plan participation rate.

**Automatic Escalation:** is an optional retirement plan feature that automatically increases an employee's elective deferral rates to their retirement savings at set intervals until it hits the maximum contribution rate. Auto-escalation may encourage less financially proactive employees to save more for retirement. While RPB cannot support automatic escalation due to it administering the plan for many employers, individual employers may employ this strategy on their own.

**Automatic Rebalancing:** is an account management feature that automatically keeps one's asset allocation in balance according to their most recent investment elections on a periodic basis.

**Beneficiary:** refers to a person (or entity) who is designated to receive the benefits of property owned by someone else. Beneficiaries often receive these benefits as part of an inheritance. A beneficiary can be designated in the documents relating to a life insurance policy, a retirement account, a brokerage account, a bank account, and other financial products. It's important to designate beneficiaries for your financial assets so that they can be distributed according to your wishes when you pass away.

**Break in Service:** is when an employee is no longer employed by an eligible employer. For RPB, a break in service occurs when a participant no longer works for any eligible employer. For example, moving from one URJ congregation to another does not constitute a break in service per RPB policy.

**Catch-up Contributions:** is a plan feature that generally allows workers 50 years old or older to contribute, on a pre-tax basis, an amount over the annual elective deferral limits. This amount is determined each year by the IRS.

**Church Plan:** is an employer benefit plan (e.g., retirement plan, medical plan) established by a denomination or an organization such as the Reform Pension Board that has as its primary purpose the maintenance and administration of a retirement, medical, and other welfare plans for the benefit of clergy and employees of churches/synagogues and other organizations controlled by the church/synagogue or associated with it. A key benefit of a church plan is that it allows small synagogue-related employers to band together to participate in a group plan consisting of numerous small and large mission-related employers. This gives employers the opportunity to not only benefit from the economies of scale in contracting with third-party administrators and professional administration of complicated, regulated, benefits plan programs but also to offer benefits programs that are consistent with the mission and values of the Reform Jewish Movement. An individual synagogue or church may also establish a church plan.

**Contribution Limits:** is the maximum amount an employee may defer each year from their paycheck and contribute to their retirement account.

**Contributions – Pre-tax:** is the amount deferred from an employee’s paycheck on a pre-tax basis. When withdrawn, the employee typically pays income tax on the distributions.

**Contributions – Roth (post-tax):** is the amount deferred from an employee’s paycheck on a post-tax basis. When withdrawn, if the Roth account meets certain criteria, the amount withdrawn is typically tax-free.

**Custodian:** is an entity (usually a bank or trust company or other financial institution) responsible for safekeeping of the assets of the plan. If the Plan Trustee is an individual or group of individuals, the Trustee usually engages a Custodian for the plan.

**Daily Valuation:** is a defined contribution plan accounting method in which all activity is accounted for in individual participant accounts and then aggregated at the plan level for trading and reporting purposes. The accounts are valued each business day.

**Defined Benefit (DB) Plan:** is a type of retirement plan where the benefit is determined based on a formula specified in the plan. The benefit is usually stated as an average percentage of compensation over a defined period of time. Contributions to fund the benefits provided by the plan are made by the employer and are calculated by an actuary based on certain assumptions. The sponsoring organization takes the risk that its investments will be sufficient to provide these benefits.

**Defined Contribution (DC) Plan:** is a type of retirement plan that specifies the annual contribution into the plan. Benefits are determined based upon contributions to an individual employee’s account and any earnings or expenses allocated to the account. The annual contribution can include amounts contributed by both the employer and employee.

**Direct Rollover:** refers to the rollover of a participant’s distribution directly from one employer-sponsored plan to another or to an IRA. No federal income tax is withheld, or penalties assessed if the rollover complies with certain requirements (because the participant is never in receipt of the money).

**Discretionary Contribution:** is an optional employer contribution, such as a profit-sharing contribution.

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**Distributable Event:** are specific events that trigger a distribution from a plan.

**Distributions:** are payments made from a plan.

**Early Withdrawal Penalty:** refers to a tax penalty if a withdrawal is made from a retirement account before someone becomes eligible to make a regular withdrawal, usually starting the year they turn 59 ½. An example of a withdrawal that incurs a penalty is a *Hardship Withdrawal* (see definition).

**Elective Deferral Contribution:** is the amount the participant elects to have taken from their paycheck and contributed on their behalf to a retirement account. The amount may be pre-tax, post-tax or both.

**Employer Contribution:** is the amount an employer contributes on behalf of their employees to their retirement account. This contribution is either usually made on either a discretionary basis or a matching basis. If made on a discretionary basis, the employer has discretion over the amount and timing of the contribution. If made on a matching basis, the employer contribution is usually based on a pre-defined formula where the employer matches employee contributions by contributing some dollar amount per dollar contributed by the employee. (e.g., an employer may match \$0.50 for every \$1.00 an employee contributes up to 6% of salary.)

**ERISA:** stands for the Employee Retirement Income Security Act (ERISA), which was enacted in 1974 for the purpose of governing employee benefit plans. ERISA sets forth reporting and disclosure standards, fiduciary requirements, minimum rights for employees including coverage, vesting and nondiscrimination of benefits, and sets minimum funding standards. The administration of ERISA is divided among the Department of Labor (DOL), the Internal Revenue Service (IRS) of the Department of the Treasury, and the Pension Benefit Guaranty Corporation (PBGC). As a *Church Plan* (see definition), RPB is not subject to ERISA.

**Fiduciary:** is an individual or corporate entity that has legal responsibility for something that belongs to someone else. For retirement plans, the definition of a fiduciary is a functional one, generally based upon whether the person has any discretion or control over the management, administration, or assets of the plan or renders investment advice for a fee. The definition typically includes plan sponsors, trustees, the plan administrator and discretionary investment managers or advisors. This generally means that plans must be maintained and operated exclusively for the benefit of plan participants, and fiduciaries are subject to the prudent person rule in exercising discretionary control over a plan and its assets.

**Fiduciary Duty:** means to act in accordance with the definition of Fiduciary, above.

**Form 1099R:** is a tax form required by the IRS to be sent at year end to report distributions made to participants and beneficiaries in retirement or profit-sharing plans, IRAs, SEPs, annuities, or insurance contracts.

**Hardship Withdrawal:** is a defined contribution plan feature that allows for withdrawals from one's retirement account in the event of an immediate and heavy financial need, and only in the amount necessary to meet the financial need. Hardship withdrawals generally are subject to ordinary income tax and a 10% penalty tax for early withdrawals.

**Individual Retirement Account (IRA):** is a trust or custodial account established for the exclusive benefit of an individual and their beneficiary. Contributions are subject to limitations. Individual retirement accounts may also be the recipient of a rollover from a qualified plan or another traditional IRA.

**In-service Withdrawals:** is an optional plan feature that allows for withdrawal of certain contributions before events normally required for distributions.

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**Mandatory Distributions:** is an optional plan feature that allows a plan to automatically distribute account balances to participants who have separated from service if the vested account balances are less than a specified amount. RPB's policy states that any participant (excluding clergy) who has been inactive for one year or more and who has a balance between \$1,000 and \$7,000 will be set up with an IRA and their RPB account rolled over to that account. If the account is \$1,000 or less, the amount will be distributed directly to the participant.

**Multiemployer Plan:** is a plan established under a collective bargaining arrangement (CBA) negotiated by a union and two or more unrelated employers that receives contributions from multiple employers. This type of plan was authorized under the Taft-Hartley Act of 1947.

**Multiple Employer Plan (MEP):** A retirement savings plan adopted by two or more employers that are unrelated for income tax purposes. The MEP can be a defined-benefit pension plan or a defined-contribution retirement plan such as a 401(k) or 403(b). Each MEP is organized and run by an entity known as the MEP sponsor. The MEP sponsor is responsible for administrative duties and, in most cases, has fiduciary liability for the plan. Companies that join the MEP are known as "adopting employers." RPB is the plan sponsor and plan administrator of the Reform Pension Trust (official name of the 403(b) plan), and our participating employers have all "adopted" the plan.

**Non-Qualified Deferred Compensation (NQDC) Plan:** allows an employee to earn compensation in one year but to receive those earnings – and defer income tax on them – in a later year or years. Basically, this enables employees to defer compensation that they have a legally binding right to receive. Because the ownership of the compensation—which may be monetary or otherwise—has not been transferred to the employee until it is paid, it is not yet part of the employee's earned income and is not counted as taxable income. RPB's Rabbi Trust is a form of a NQDC plan.

**Plan Administrator:** is the person, committee or organization who is generally responsible for managing the plan and ensuring the compliance of the plan with all applicable rules and regulations. This includes contracting with external servicing providers, approving plan expenses, verifying or approving withdrawals of plan assets (including benefit payments), timely transmission of plan contributions, and signing and filing all government reports, as necessary. RPB serves as the plan administrator for the Reform Pension Trust.

**Plan Document:** is a written document that specifies the requirements, benefits and restrictions of the plan. All qualified plans must be in writing.

**Plan Participant:** a member of a defined-benefit or defined-contribution plan to whom benefits are promised or are being paid.

**Plan Sponsor:** is the entity that establishes and maintains the plan for its employees or participants. RPB is the plan sponsor of the Reform Pension Trust.

**Plan Year:** is the twelve-month period established by the plan that ideally is tied to the compensation policies, the contribution timing requirements and the cash flow needs of the employer. It may be the calendar year, a fiscal year, or some other year. RPB's plan year is July 1 through June 30.

**Portability:** refers to an employee's ability to rollover their retirement benefits to another plan or IRA when they cease employment with the sponsoring employer.

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**Qualified Default Investment Alternative (QDIA):** is an investment option that is essentially a target retirement date fund, a balanced fund, or a professionally managed account, which is used to accept participant contributions in the absence of an affirmative election. A QDIA will provide fiduciary relief in the event of participant investment loss provided the plan complies with notice requirements and the sponsor has been prudent in selecting and monitoring the investment. RPB's QDIA is the RPB Growth & Income Fund, which is a balanced fund.

**Qualified Domestic Relations Order (QDRO):** A judgement or decree from a court that awards all or a part of a participant's benefit to an alternate payee, typically the former spouse or dependent, pursuant to state domestic relations law regarding child support, alimony or marital property rights.

**Qualified Plan:** is a plan that qualifies for special tax treatment because it meets certain requirements of the Internal Revenue Code. Qualified plans generally fall into two categories, defined benefit plans and defined contribution plans. Qualified plans must be in writing; must be communicated to employees; the assets of the plan must be held in trust for the exclusive benefit of participants; and the plan must be designed to be a permanent and continuing arrangement. RPB's 403(b)(9) plan is a qualified plan.

**Rabbi Trust:** is a grantor trust under a nonqualified plan where assets are set aside in the trust to help fund the payment of deferred amounts. Employees sometimes, but not always, have limited ability to direct investments under the nonqualified plan. The assets of the trust must remain available to the employer's creditors if it becomes insolvent. Earnings on the trust assets are taxable to the employer. RPB maintains a Rabbi Trust non-qualified deferred compensation plan. Additionally, participants in RPB's rabbi trust have full discretion on how to invest the money across the available investment options. (see Non-Qualified Deferred Compensation Plan.)

**Recordkeeper:** is the firm that maintains accounting records for each participant, allocates plan assets among participants, and processes participant transaction requests. Typically, the recordkeeper performs required compliance testing and helps satisfy government reporting requirements. Fidelity serves as RPB's recordkeeper.

**Required Minimum Distributions (RMD):** refer to when (and how) an individual's retirement benefits must be distributed. In general, an RMD represents a portion of an account which is required to be paid annually to participants who have retired and attained age 73 (starting in 2023). The minimum amount required to be distributed from an account is determined by life expectancy tables covering the employee and beneficiary. The participant incurs substantial penalties if these distributions are not made.

**Rollover:** refers to the transfer of the holdings of one retirement plan to another without creating a taxable event.

**SEP IRA:** is a tax-advantaged retirement plan, generally available to all types of employers, where employers make tax-deductible contributions to an IRA for employees. SEPs involve limited recordkeeping and reporting requirements and employers are not required to make a contribution every year.

**SIMPLE IRA:** is a tax-advantaged plan for employers with less than 100 employees that allows pre-tax deferrals to be contributed. The plan is exempt from nondiscrimination testing and top-heavy requirements. Reporting requirements are also simplified. The deferral limit is lower than the limit for a 403(b) plan and the employer must make a 3% match or a 2% nonelective contribution for all eligible employees. All contributions to the plan are 100% vested.

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**Summary Plan Description (SPD):** is a booklet that summarizes plan provisions in an easy-to-read format. Among other things, an SPD includes information about eligibility, vesting, employee rights, and benefit claims and appeal provisions. Required contents of the Summary Plan Description are dictated by the Department of Labor regulations. The SPD is required to be furnished to participants and beneficiaries by ERISA. RPB's equivalent document is its Plan Narrative.

**Tax-deferred:** refers to investment earnings that accumulate tax-free until the investor takes money out of their account. Examples include an IRA and 403(b) tax-deferred accounts.

**Third-Party Administrators (TPA):** is a service provider who traditionally performs solely plan administrative duties such as recordkeeping and compliance testing.

**Trustees:** are one of the primary fiduciaries of the plan. The trustee ensures that plan assets are not used to benefit the sponsor or other parties in interest. A trustee generally must be appointed for a plan (e.g., by the plan sponsor or in accordance with plan terms) although there may be more than one. A trustee may be a directed trustee subject to the instructions of a designated party regarding investment of plan assets or may be a discretionary trustee with sole authority over the investment of plan assets.

**Vesting:** gives rights to employees to employer-provided assets over time, which gives the employee an incentive to perform well and stay with the organization. Generally, nonforfeitable rights accrue based on how long an employee has worked for an organization. One example of vesting is seen in how money is awarded to an employee via a 403(b) match. Such matching dollars usually take years to vest, meaning an employee must stay with the organization long enough to be eligible to receive them. Note that RPB cannot support an automated matching program due to it being the plan administrator for hundreds of employers. An individual employer, however, can administer its own matching program.

## Economics

**Capital:** represents the tools which people use when they work, in order to make their work more productive and efficient. Under capitalism, capital can also refer to a sum of money invested in a business in hopes of generating profit.

**Capitalism:** is an economic system in which privately-owned companies and businesses undertake most economic activity (with the goal of generating private profit), and most work is performed by employed workers who are paid wages or salaries.

**Capital Flight:** is a destructive process in which investors (both foreigners and domestic residents) withdraw their financial capital from a country as a result of what are perceived to be non-favorable changes in economic policies, political conditions, or other factors. The consequences of capital flight can include a contraction in real investment spending, a dramatic depreciation in the exchange rate, and a rapid tightening of credit conditions. Developing countries are most vulnerable to capital flight.

**Capital Markets:** are where savings and investments are channeled between suppliers and those in need. Suppliers are people or institutions with capital to lend or invest and typically include banks and investors. Those who seek capital in this market are businesses, governments, and individuals. Capital markets are composed of primary and secondary markets. The most common capital markets are the stock market and the bond market. They seek to improve transactional efficiencies by bringing suppliers together with those seeking capital and providing a place where they can exchange securities.

**Central Bank:** is a public financial institution, usually established at the national level and controlled by a national government, which sets short-term interest rates, lends money to commercial banks and governments, and otherwise oversees the operation of the credit system. Some central banks also have responsibility for regulating the activities of private banks and other financial institutions.

**Consumer Price Index (CPI):** is a measure of the overall price level paid by consumers for the various goods and services they purchase. Retail price information is gathered on each type of product, and then weighted according to its importance in overall consumer spending, to construct the CPI. Monthly or annual changes in the CPI provide a good measure of the rate of consumer price inflation.

**Consumption:** refers to goods and services which are used for their ultimate end purpose, meeting some human need or desire. Consumption can include private consumption (by individuals, financed from their personal incomes) or public consumption (such as education or health care – consumption organized and paid for by government). Consumption is distinct from investment, which involves using produced goods and services to expand future production.

**Credit:** refers to the ability to purchase something without immediately paying for it – through a credit card, a bank loan, a mortgage, or other forms of credit. The creation of credit is the most important source of new money, and new spending power, in the economy.

**Credit Squeeze:** happens at times when private banks become reluctant to issue new loans and credit, often because they are worried about the risk of default by borrowers. This is common during times of recession or financial instability. A credit squeeze can dramatically slow down economic growth and job-creation.

**Debt:** refers to the total amount of money owed by an individual, company or other organization to banks or other lenders is their debt. It represents the accumulated total of past borrowing. When it is owed by government, it is called public debt, and it represents the accumulation of past budget deficits.

**Debt Burden:** is the real economic importance of a debt depends on the interest rate that must be paid on the debt, and on the total income of the consumer or business that undertook the loan. For public debt, the most appropriate way to measure the debt burden is as a share of national GDP.

**Deficit:** is when a government, business, or household spends more in a given period of time than they generate in income, they incur a deficit. A deficit must be financed with new borrowing, or by running down previous savings.

**Deflation:** exists when there is a decline in the overall average level of prices. Deflation is the opposite of inflation.

**Discretionary Fiscal Policy:** refers to when some government taxing and spending programs can be adjusted by government in response to changing economic circumstances. These discretionary measures (increasing or decreasing certain taxes or spending) are usually used as a counter-cyclical policy.

**Discount Rate:** is the interest rate the Federal Reserve charges commercial banks and other financial institutions for short-term loans. The discount rate is applied at the Fed's lending facility, which is called the discount window.

**Employment Rate:** measures the share of working age adults who are actually employed in a paying position. The employment rate can be a better indicator of the strength of labor markets than the unemployment rate (since the unemployment rate depends on whether or not a non-working individual is considered to be "in" the labor force).

**Federal Funds Rate:** refers to the target interest rate range set by the Federal Open Market Committee (FOMC). This target is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.

**Federal Open Market Committee (FOMC):** is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). The committee is made up of 12 members, including seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the remaining 11 Reserve Bank presidents, who serve on a rotating basis.

**Fiscal Policy:** represents the spending and taxing activities of government.

**Foreign Exchange:** is the process by which the currency of one nation is converted into the currency of another country.

**Free Trade Agreements:** is an agreement between two or more countries which eliminates tariffs on trade between the countries, reduces non-tariff barriers to trade, cements rights and protections for investors and corporations, and takes other measures to guarantee a generally liberalized, pro-business economic environment.

**Full Employment:** is a condition in which every willing worker is able to find a paying job within a very short period of time, and hence unemployment is near zero.

**Geopolitical Risk:** is the risk associated with wars, terrorist acts, and tensions between states that affect the normal and peaceful course of international relations.

**Globalization:** is a generalized historical process through which more economic activity takes place across national borders. Forms of globalization include international trade (exports and imports), foreign direct investment, international financial flows, and international migration.

**Gross Domestic Product (GDP):** is the value of all the goods and services produced for money in an economy, evaluated at their market prices. Excludes the value of unpaid work (such as caring reproductive labor performed in the home). GDP is calculated by adding up the value-added at each stage of production.

**GDP, Nominal:** measures the total value of all the goods and services produced and traded for money in the formal economy, evaluated at their current money prices. Nominal GDP can grow from one period to the next because of an increase in actual (real) output, and/or because of an increase in average prices (that is, as a result of inflation).

**GDP, Real:** is the value of total gross domestic product (that is, all the goods and services produced for money in the economy) adjusted for the effects of inflation. In theory, real GDP represents the physical quantity of output.

**GDP, Per Capita:** is the level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country, although this is misleading (because it doesn't account for differences in the distribution of income across factors of production and individuals, and it doesn't consider the value of unpaid labor).

**Industrial Policy:** represents government policies aimed at fostering the domestic development of particular desirable or productive industries, in order to boost productivity, create higher-paid jobs, and enhance international trade performance. Tools of industrial policy can include measures to stimulate investment in targeted industries; trade policies (such as tariffs, export incentives, or limits on imports); and technology policies.

**Inflation:** is a process whereby the average price level in an economy increases over time.

**International Monetary Fund (IMF):** is an international financial institution established after World War II with the goal of regulating and stabilizing financial relationships among countries and ensuring free flow of finance around the world economy. Based in Washington, D.C., it is governed by a system which grants disproportionate influence to the wealthier economies (based on their contribution to the Fund's operating resources).

**Labor Supply:** is the total number of workers available and willing to work in a paid position; usually measured by the labor force (although the labor force usually excludes many workers who do not officially qualify as "actively" seeking work, but who can nevertheless be mobilized into employment if necessary).

**Macroeconomics:** is the study of aggregate economic indicators such as GDP growth, employment, unemployment, and inflation. Conventional economics makes a distinction between macroeconomics and microeconomics (the study of individual businesses or industries).

**Microeconomics:** is the study of the economic behavior of individual "agents" such as particular companies, workers, or households.

**Monetary Policy:** is a course undertaken by a central bank such as the Federal Reserve to effect economic growth. If the policy is to 'tighten', the goal is to slow down overheated economic growth, to constrict spending

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in an economy that is seen to be accelerating too quickly, or to curb inflation when it is rising too fast. This is usually implemented by raising short-term interest rates through policy changes to the discount rate and federal funds rate. Boosting interest rates increases the cost of borrowing and effectively reduces its attractiveness. Tight monetary policy can also be implemented via selling assets on the central bank's balance sheet to the market through open market operations (OMO). If the policy is to 'loosen', the goal is to encourage economic growth by lowering short-term interest rates and making borrowing for economic expansion more attractive.

**Participation Rate:** is the proportion of working-age individuals who decide to "participate" in the labour force, by either being employed or actively seeking work. The precise definition of what constitutes "actively seeking work" varies from one country to another, and this can affect measurements of the labour force and unemployment.

**Productivity:** measures the effectiveness or efficiency of productive effort. Productivity can be measured in many ways. Physical productivity measures the actual amount of a good or service produced (e.g. tons of steel, or number of haircuts). Productivity can also be measured in terms of the value of output. Most commonly, productivity is measured as the amount of output produced over a certain period of work (e.g. output per hour); this is considered a measure of labor productivity. But other approaches are also possible, including measurements of capital productivity (output relative to the value or physical quantity of invested capital) and "total factor productivity" (which is an abstract statistical measurement of the overall effectiveness of production).

**Real Wages:** represents the value of wages, adjusted for the level of consumer prices. If the nominal value of wages is growing faster than consumer prices, then real wages are growing, and hence the real consumption possibilities offered to workers are improving.

**Recession:** is a condition in which the total real GDP of an economy shrinks (usually, for at least two consecutive quarters).

**Recovery:** is a condition in which real GDP begins to grow again, following a recession.

**Socialism:** is an economic system in which most wealth is owned or controlled collectively (through the state, other public institutions, or non-profit organizations), and the operation of markets is influenced or managed through regulation and planning.

**Trade Deficit:** occurs when a country's imports exceed its exports during a given time period. It is also referred to as a negative balance of trade (BOT).

**Trade Surplus:** is an economic measure of a positive balance of trade, where a country's exports exceed its imports.

**Trade War:** is a situation in which countries try to damage each other's trade, typically by the imposition of tariffs or other barriers on another country's imports.

**Unemployment:** exists when individuals who would like to be employed, and are actively seeking work, but cannot find a job, are considered "officially" unemployed. Individuals who are not working, but not actively looking for work, are considered to be outside of the labor force, and hence don't count as "officially" unemployed.

**Unemployment Rate:** is the number of unemployed people measured as a proportion of the labor force.

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**Weak Dollar:** refers to a downward price trend in the value of the U.S. dollar relative to other foreign currencies. Essentially, a weak dollar means that a U.S. dollar can be exchanged for smaller amounts of foreign currency. The effect of this is that goods priced in U.S. dollars, as well as goods produced in non-US countries, become more expensive to U.S. consumers.

**World Bank:** is an international financial organization formed after World War II and based in Washington D.C. Its supposed goal is to promote the economic development of poor regions of the world through subsidized loans, economic advice, and other forms of assistance, but in practice it has played an important role in reinforcing neoliberal economic policies in developing countries, including through the aggressive use of conditionality strategies.

**World Trade Organization (WTO):** is an international economic organization formed in 1995 and based in Geneva, Switzerland, which is dedicated to promoting greater trade and investment among its members. Most countries in the world now belong to the WTO, and hence have committed to reducing tariffs on imports, reducing non-tariff barriers to trade, reducing restrictions on foreign investment, and generally following a pro-market vision of economic development.

**Yield Curve:** is a line that plots yields, or interest rates, of bonds that have equal credit quality but differing maturity dates. The slope of the yield curve can predict future interest rate changes and economic activity. There are three main yield curve shapes: normal upward-sloping curve, inverted downward-sloping curve, and flat.

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## Acronyms / Other Terms

### Asset Classes

MSCI ACWI IMI

S&P 500

Russell 2500

MSCI EAFE

MSCI EM

Bloomberg Agg

Bloomberg TIPS

Bloomberg Long Treas

Bloomberg High Yield

Bloomberg Muni

Bloomberg Global Agg

GBI-EM Glob Div

Bloomberg Commodity

DXY Dollar Index

### Core PCE

LIBOR

FTSE