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Improving the long term financial security of all women through education and advocacy.

Glossary of Pension & 401(k) Terms

Here is a brief explanation of commonly used pension and savings terms:

Annuity: Regular payments of income (usually monthly) over a specified period of time (often for life). The purpose is to provide a steady stream of income.

Beneficiary: The person that a pension plan participant chooses to receive pension benefits if the participant dies first.

Defined-Benefit Plan: A traditional pension plan insured by the government that pays a certain benefit (usually based on your age at retirement, rate of pay and the number of years you worked). The employer's pension administrator controls investments and bears the risk of investment.

Defined-Contribution Plan: A retirement plan in which contributions are made by the employer, the employee or both. The final payout will depend on how much is invested and the success of the investments. This type of retirement plan is not insured by the government.

Early Retirement Age: An age earlier than the normal retirement age (usually 65) at which an employee may begin to receive reduced benefits under a pension plan.

ERISA: The federal law, which took effect in 1976 that regulates private pensions.

401(k) Plan: A voluntary savings plan named for the section of the tax code that established it. Employees contribute a portion of their pre-tax salary, and employers may match some or all of their employees' contributions.

403(b) Plan: A tax-deferred vehicle of the non-profit sector also named for the section of the code. It works much like the popular 401(k) but with fewer investment choices.

Individual Retirement Account (IRA): A retirement savings plan in which individuals can contribute up to $5,500 per year ($6,500 over 50 years of age). Under certain circumstances, that amount may be tax-deductible.

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Joint & Survivor Benefit: A pension benefit that allows for a surviving spouse to receive a benefit if the worker or retiree dies first. The payment is usually half the worker's benefit.

Lump-Sum Payment: Payment of an entire benefit all at one time.

Participant: Someone who is or may be eligible to receive plan benefits. A "member" of a plan.

Pension Integration: An employer's subtraction of part of an individual's Social Security benefit from her pension benefit.

Portability: The ability to take a vested retirement benefit from one company and transfer it to an individual retirement account (IRA) or a retirement plan at another company.

Qualified Domestic Relations Order (QDRO): A special court order or a court-approved property settlement agreement that requires a pension plan to pay a share of a pension to an "alternate payee,"—that is, someone other than the employee, usually the ex-spouse.

Roth IRA: A new type of IRA in which tax benefits come later rather than sooner. Contributions for individuals—up to $5,500 annually ($6,500 over 50 years of age)—cannot be deducted on your tax return, but when you begin withdrawing your funds at retirement, you will not owe tax.

SEP-IRA: Simplified Employee Pensions (SEP) allow self-employed workers to save for retirement or small business employers to provide pension benefits to their employees.

SIMPLE IRA: A salary-reduction plan similar to a 401(k) for businesses with 100 people or fewer.

Tax-Deferred: Money that is allowed to grow, tax-free, until you reach retirement age and start to withdraw it. (Withdrawals must begin no later than age 70½.)

Vesting: The date when you acquire a non-forfeitable right to receive earned benefits from a savings or pension plan.