Advanced Certification in Retirement Coaching and Mentoring

Key Elements of Retirement Planning

Key Elements of Retirement Planning Glossary

A

1. Asset Allocation: The process of diversifying investments within a retirement portfolio to manage risk and optimize returns. This involves spreading investments across different asset classes such as stocks, bonds, and cash equivalents based on an individual's risk tolerance and financial goals.

2. Annuity: A financial product sold by insurance companies that provides a series of payments to the holder over a specified period, often for the remainder of their life. An annuity can be a valuable tool in retirement planning to ensure a steady income stream.

3. Age Pension: A government pension program available in many countries to provide financial assistance to retirees. The eligibility criteria and benefit amount vary by country and are often based on age, income, and other factors.

4. Active Income: Income earned through ongoing work or employment, such as salaries, wages, bonuses, or self-employment income. Active income is typically the primary source of income for individuals before retirement.

5. Annual Withdrawal Rate: The percentage of a retiree's investment portfolio that is withdrawn each year to fund living expenses during retirement. The annual withdrawal rate is a critical factor in retirement planning to ensure sustainable income throughout retirement.

B

6. 401(k) Plan: A tax-advantaged retirement savings plan offered by employers in the United States. Employees can contribute a portion of their pre-tax salary to a 401(k) plan, and employers may offer matching contributions. 401(k) plans are a popular retirement savings vehicle due to their tax benefits and employer contributions.

7. Budgeting: The process of creating a detailed plan for managing and allocating financial resources. Budgeting is essential in retirement planning to track income, expenses, and savings to ensure financial stability during retirement.

8. Beneficiary: An individual designated to receive assets or benefits from a retirement account, insurance policy, or estate upon the death of the account holder. It is important to regularly review and update beneficiary designations to ensure assets are passed on according to the account holder's wishes.

9. Brokerage Account: An investment account that allows individuals to buy and sell a variety of securities,

such as stocks, bonds, mutual funds, and exchange-traded funds (ETFs). Brokerage accounts are commonly used for retirement savings to build a diversified investment portfolio.

10. Bridge Job: A part-time or temporary job taken by retirees to supplement their income during the transition from full-time work to full retirement. Bridge jobs can help retirees ease into retirement, stay socially engaged, and boost their financial security.

C

11. Compound Interest: Interest calculated on the initial principal and any accumulated interest in an investment or savings account. Compound interest allows investments to grow exponentially over time, making it a powerful tool for retirement planning.

12. Certificate of Deposit (CD): A time deposit offered by banks and credit unions that pays a fixed interest rate over a specified term. CDs are considered low-risk investments and can be used in retirement planning to preserve capital and earn a predictable return.

13. Catch-Up Contributions: Additional contributions allowed for individuals aged 50 and older to boost their retirement savings in tax-advantaged accounts. Catch-up contributions help older workers make up for lost time and accelerate their retirement savings.

14. Cost of Living Adjustment (COLA): A provision in retirement plans that increases benefit payments to account for inflation. COLAs help retirees maintain their purchasing power and standard of living throughout retirement.

15. Critical Illness Insurance: A type of insurance that provides a lump-sum payment if the policyholder is diagnosed with a severe illness or medical condition. Critical illness insurance can help cover medical expenses and loss of income during retirement.

D

16. Defined Benefit Plan: A retirement plan offered by employers that guarantees a specific benefit amount to employees upon retirement. Defined benefit plans are funded by the employer and provide retirees with a steady income stream in retirement.

17. Defined Contribution Plan: A retirement plan that allows employees to contribute a portion of their salary to a tax-advantaged account for retirement savings. Defined contribution plans, such as 401(k) plans, do not guarantee a specific benefit amount and rely on employee contributions and investment returns.

18. Dividend: A payment made by a corporation to its shareholders as a distribution of profits. Dividends can provide a source of income for retirees who hold dividend-paying stocks in their investment portfolio.

19. Debt Management: The process of managing and reducing debt to improve financial stability and achieve long-term financial goals. Effective debt management is essential in retirement planning to minimize financial burdens during retirement.

20. Drawdown Strategy: A plan for systematically withdrawing funds from retirement savings to cover living expenses during retirement. A drawdown strategy aims to balance income needs with investment growth and longevity to ensure sustainable retirement income.

E

21. Early Retirement: The decision to retire before reaching the traditional retirement age, often with a reduced pension or Social Security benefits. Early retirement requires careful financial planning to ensure sufficient savings to cover living expenses throughout retirement.

22. Estate Planning: The process of arranging for the management and distribution of assets after death. Estate planning involves creating wills, trusts, and powers of attorney to ensure that assets are passed on according to the individual's wishes and minimize tax liabilities.

23. Emergency Fund: A savings account set aside to cover unexpected expenses or financial emergencies. An emergency fund is an essential component of retirement planning to provide a financial safety net and prevent the need to dip into retirement savings prematurely.

24. Equity: The value of an asset after subtracting any liabilities or debts. In retirement planning, equity can refer to ownership in a home, investments, or other assets that can be used to generate income or fund retirement expenses.

25. Early Withdrawal Penalty: A fee imposed on withdrawals from retirement accounts before the specified age limit, typically 59 ½ in the United States. Early withdrawal penalties discourage premature withdrawals and help preserve retirement savings for the future.

F

26. Financial Advisor: A professional who provides financial advice and guidance on investments, retirement planning, insurance, and other financial matters. Financial advisors help individuals create and implement personalized financial plans to achieve their retirement goals.

27. Fixed Income: A type of investment that pays a fixed interest rate over a specified period, such as bonds or certificates of deposit (CDs). Fixed income investments can provide a stable source of income in retirement and help balance a diversified investment portfolio.

28. Financial Independence: The ability to cover living expenses and achieve financial goals without relying on employment income. Financial independence is a common objective in retirement planning to ensure a comfortable and secure retirement.

29. Full Retirement Age (FRA): The age at which individuals are eligible to receive full Social Security retirement benefits. The full retirement age varies based on birth year and is an important factor to consider when planning for Social Security benefits.

30. Flexible Spending Account (FSA): A tax-advantaged account offered by employers that allows employees to set aside pre-tax funds for eligible medical expenses. FSAs can help retirees save on healthcare costs

during retirement.

G

31. Guaranteed Income: A source of income that is guaranteed for a specific period or for life, such as a pension or annuity. Guaranteed income can provide retirees with financial security and peace of mind throughout retirement.

32. Government Benefits: Social security, Medicare, and other government programs that provide financial assistance and healthcare coverage to retirees. Understanding and maximizing government benefits is essential in retirement planning to supplement retirement income.

33. Global Diversification: The practice of investing in a variety of asset classes and geographic regions to spread risk and enhance returns. Global diversification can help retirees reduce exposure to market volatility and achieve long-term financial goals.

34. Growth Stocks: Stocks of companies that are expected to grow at a higher rate than the market average. Growth stocks can provide capital appreciation and potentially higher returns for retirees seeking to grow their investment portfolio.

35. Golden Years: A term often used to describe retirement or the later years of life when individuals have more time to pursue leisure activities and enjoy the fruits of their labor. Planning for the golden years involves creating a fulfilling retirement lifestyle and ensuring financial security.

H

36. Health Savings Account (HSA): A tax-advantaged account that allows individuals to save for qualified medical expenses. HSAs can be used to cover healthcare costs in retirement and offer triple tax benefits—tax-deductible contributions, tax-free growth, and tax-free withdrawals for medical expenses.

37. Home Equity: The value of a homeowner's interest in their property, calculated by subtracting the outstanding mortgage balance from the property's market value. Home equity can be leveraged in retirement through downsizing, home equity loans, or reverse mortgages to generate income or cover expenses.

38. Immediate Annuity: An annuity that begins making payments to the holder immediately after purchase, typically providing a guaranteed income stream for life. Immediate annuities can help retirees secure a steady income source in retirement.

39. Inflation: The rate at which the general level of prices for goods and services rises, reducing purchasing power over time. Inflation erodes the value of money and is a significant consideration in retirement planning to ensure income keeps pace with rising costs.

40. Investment Risk: The potential for investments to lose value due to market fluctuations, economic conditions, or other factors. Managing investment risk is crucial in retirement planning to protect savings and achieve long-term financial goals.

I

41. Individual Retirement Account (IRA): A tax-advantaged retirement account that allows individuals to save for retirement with tax-deferred or tax-free growth. IRAs offer a variety of investment options and can be used to supplement employer-sponsored retirement plans.

42. Income Annuity: An annuity that provides regular payments to the holder, typically for a specified period or for life. Income annuities can help retirees create a predictable income stream in retirement and manage longevity risk.

43. Investment Portfolio: A collection of investments, such as stocks, bonds, mutual funds, and other assets, held by an individual or institution. Building a diversified investment portfolio is essential in retirement planning to manage risk and achieve financial goals.

44. Long-Term Care Insurance: Insurance that covers the cost of long-term care services, such as nursing home care, home health care, and assisted living facilities. Long-term care insurance can protect retirees from high healthcare expenses and preserve retirement savings.

45. Life Expectancy: The average number of years a person is expected to live, based on factors such as age, gender, health, and lifestyle. Life expectancy is an important consideration in retirement planning to estimate the length of retirement and plan for income needs.

L

46. Lump Sum: A one-time payment or distribution of a sum of money, often received from a retirement account, pension plan, or insurance policy. Choosing between a lump sum and annuity payments can impact retirement income and financial security.

47. Longevity Risk: The risk of outliving retirement savings due to longer-than-expected life expectancy. Longevity risk is a significant concern in retirement planning, and strategies such as annuities and guaranteed income can help manage this risk.

48. Medicare: A federal health insurance program in the United States that provides coverage for individuals aged 65 and older, as well as certain younger individuals with disabilities. Understanding Medicare coverage and options is essential in retirement planning to manage healthcare costs.

49. Medicaid: A joint federal and state program that provides healthcare coverage for individuals with limited income and resources. Medicaid can help retirees cover long-term care expenses not covered by Medicare and protect assets in retirement.

50. Market Risk: The risk of financial loss due to fluctuations in the stock market, interest rates, or economic conditions. Market risk is a key consideration in retirement planning, and diversification and asset allocation can help mitigate this risk.

M

51. Mutual Fund: An investment vehicle that pools money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities. Mutual funds offer professional management and can be a convenient option for retirement savings.

52. Medicare Advantage Plan: A type of Medicare health plan offered by private insurance companies that provides coverage for hospital and medical services. Medicare Advantage plans can offer additional benefits beyond traditional Medicare and may include prescription drug coverage.

53. Net Worth: The difference between an individual's assets and liabilities, representing their overall financial position. Calculating net worth is essential in retirement planning to assess financial health and set goals for wealth accumulation and preservation.

54. Non-Qualified Annuity: An annuity funded with after-tax dollars, typically purchased outside of a tax-advantaged retirement account. Non-qualified annuities offer tax-deferred growth and can provide additional retirement income.

55. Required Minimum Distribution (RMD): The minimum amount that individuals aged 72 and older must withdraw from their retirement accounts each year, based on IRS guidelines. RMDs are intended to ensure that retirees take distributions from tax-advantaged accounts and pay taxes on the funds.

N

56. Non-Financial Considerations: Personal, social, and emotional factors that influence retirement decisions and lifestyle choices. Non-financial considerations can include health, relationships, purpose, and leisure activities that impact retirement well-being.

57. Nest Egg: A sum of money saved or invested for a specific purpose, such as retirement. Building a nest egg is a fundamental goal in retirement planning to provide financial security and support a comfortable lifestyle in retirement.

58. Passive Income: Income generated from investments, real estate, or other sources that require minimal effort or active involvement. Passive income streams can supplement retirement income and provide financial stability without relying on traditional employment.

59. Power of Attorney: A legal document that authorizes an individual to make financial or healthcare decisions on behalf of another person. Powers of attorney are important in retirement planning to ensure that trusted individuals can act on behalf of retirees in case of incapacity.

60. Pre-Tax Contributions: Contributions made to retirement accounts with income that has not been taxed, reducing taxable income in the current year. Pre-tax contributions are common in employer-sponsored retirement plans like 401(k)s and can help retirees save on taxes.

O

61. Optionally: The ability to choose between different alternatives or courses of action. Having options in retirement planning allows individuals to tailor their financial strategy to meet their unique needs and

preferences.

62. Outliving Assets: The risk of depleting retirement savings before the end of life due to longevity, poor investment returns, or overspending. Planning for longevity and creating sustainable income streams are essential to avoid outliving assets in retirement.

63. Over-the-Counter Medications: Medications that can be purchased without a prescription, such as pain relievers, antacids, or allergy medications. Over-the-counter medications can help retirees manage minor health conditions and reduce healthcare costs.

64. Long-Term Care: Services and support provided to individuals who are unable to perform activities of daily living due to illness, disability, or age-related issues. Long-term care can include assistance with bathing, dressing, medication management, and other essential tasks.

65. Overdraft Protection: A service offered by banks to cover transactions that exceed the available balance in a checking account. Overdraft protection can prevent declined payments, fees, and negative balances in retirement accounts.

P

66. Pension: A retirement plan sponsored by an employer that provides a fixed income to employees upon retirement. Pensions are becoming less common, but they offer a valuable source of guaranteed income for retirees.

67. Power of Attorney for Finances: A legal document that authorizes an individual to make financial decisions on behalf of another person. A power of attorney for finances is essential in retirement planning to ensure that trusted individuals can manage financial matters if needed.

68. Personal Savings Rate: The percentage of disposable income that individuals save or invest for future goals, such as retirement. Monitoring and increasing the personal savings rate is critical in retirement planning to build wealth and achieve financial security.

69. Private Health Insurance: Health insurance coverage provided by private insurance companies or employers that offers benefits beyond those provided by government programs like Medicare. Private health insurance can help retirees access additional services and coverage for healthcare needs.

70. Potential Returns: The anticipated gains or losses on investments based on historical performance, market conditions, and economic factors. Understanding potential returns is essential in retirement planning to set realistic expectations and make informed investment decisions.

Q

71. Qualified Charitable Distribution (QCD): A direct transfer of funds from an individual retirement account (IRA) to a qualified charity. QCDs can satisfy required minimum distributions (RMDs) and provide tax benefits for retirees who want to support charitable causes.

72. Qualified Retirement Plan: A retirement savings plan that meets specific IRS guidelines and offers tax advantages for contributions and growth. Examples of qualified retirement plans include 401(k) plans, IRAs, and pension plans.

73. Qualified Longevity Annuity Contract (QLAC): A type of deferred income annuity purchased within a retirement account that begins making payments at an advanced age, such as 80 or 85. QLACs can provide a guaranteed income stream later in retirement to manage longevity risk.

74. Qualified Domestic Relations Order (QDRO): A court order that establishes the division of retirement benefits between divorcing spouses or dependents. QDROs are used to allocate retirement assets, such as pensions and 401(k) accounts, during divorce proceedings.

75. Quality of Life: The overall well-being and satisfaction experienced by individuals based on physical, emotional, social, and financial factors. Improving quality of life is a central goal in retirement planning to