



## Financial Service Terms

**Annuity** An insurance-based contract that provides future payments at regular intervals in exchange for current premiums. Annuity contracts are usually purchased from banks, credit unions, brokerage firms, or insurance companies.

**Buy-Sell Agreement** A buy-sell agreement is an arrangement between two or more parties that obligates one party to buy the business and another party to sell the business upon the death, disability, or retirement of one of the owners.

**Defined Benefit Plan** A qualified retirement plan under which a retiring employee will receive a guaranteed retirement fund, usually payable in installments. Annual contributions may be made to the plan by the employer at the level needed to fund the benefit. The annual contributions are limited to a specified amount, indexed for inflation.

**Executive Bonus Plan** The employer pays for a benefit that is owned by the executive. The bonus could take the form of cash, automobiles, life insurance, or other items of value to the executive.

**Individual Retirement Account (IRA)** Contributions to a traditional IRA are deductible from earned income in the calculation of federal and state income taxes if the taxpayer meets certain requirements. The earnings accumulate tax deferred until withdrawn, and then they are taxed as ordinary income. Individuals not eligible to make deductible contributions may make nondeductible contributions, the earnings on which would be tax deferred.

**Roth IRA** A nondeductible IRA that allows tax-free withdrawals when certain conditions are met. Income and contribution limits apply.

**Simplified Employee Pension Plan (SEP)** A type of plan under which the employer contributes to an employee's IRA. Contributions may be made up to a certain limit and are immediately vested.

**Life Insurance** An insurance policy that pays a death benefit to beneficiaries if the insured dies. In return for this protection, the insured pays a premium, usually on an annual basis.

**Term Insurance** Term life insurance provides a death benefit if the insured dies. Term insurance does not accumulate cash value and ends after a certain number of years or at a certain age.



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**Universal Life Insurance** A type of life insurance that combines a death benefit with a savings element which accumulates tax deferred at current interest rates. Under a universal life insurance policy, the policyholder can increase or decrease his or her coverage, with limitations, without purchasing a new policy.

**Variable Universal Life Insurance** A type of life insurance that combines a death benefit with a savings element that accumulates tax deferred. Under a variable universal life insurance policy, the cash value in the policy can be placed in a variety of subaccounts with different investment objectives. The policyholder can transfer funds among the subaccounts as he or she wishes. Fees are charged after a certain number of transfers.

**Whole Life Insurance** A type of life insurance that offers a death benefit and also accumulates cash value, tax deferred at fixed interest rates. Whole life insurance policies generally have a fixed annual premium that does not rise over the duration of the policy. Whole life insurance is also referred to as "ordinary" or "straight" life insurance.

**Qualified Retirement Plan** A pension, profit-sharing, or qualified savings plan that is established by an employer for the benefit of the employees. These plans must be established in conformity with IRS rules. Contributions accumulate tax deferred until withdrawn and are deductible to the employer as a current business expense.

**Trust** A legal entity created by an individual in which one person or institution holds the right to manage property or assets for the benefit of someone else. Types of trusts include: Testamentary Trust – A trust established by a will that takes effect upon death; Living Trust – A trust created by a person during his or her lifetime; Revocable Trust – A trust in which the creator reserves the right to modify or terminate the trust; Irrevocable Trust – A trust that may not be modified or terminated by the trustor after its creation

**Will** A legal document that declares a person's wishes concerning the disposition of property, the guardianship of his or her children, and the administration of the estate after his or her death.