

## Well and Good LLC's Glossary of 403(b) Plan Fiduciary Terms<sup>i</sup>

**Alpha:** Indicates the value added by an active fund manager. Alpha of 0 (zero) represents an adequate return for investment management risk, less than 0 is inadequate return for the risk, more than 0 is a positive return considering the risk taken.

**Annuity or Deferred Annuity:** During working years an annuity functions much like a mutual fund. However, there is a provision (with a related expense) that the participant may convert the account balance to a lifetime stream of payments.

**Active Funds:** Funds that rely upon an investment manager's decisions, research or strategies to buy or sell potentially undervalued or overvalued securities. Research and transaction costs usually result in a higher expense ratio than index funds.

**Asset Allocation:** The process of dividing investments among different asset classes to balance risk and reward.

**Asset Class:** A specific category of investments that exhibit similar risk and return characteristics such as money market, bonds, U.S. stocks or international stock investments.

**Basis Point:** Smallest measure used in comparing yields, expenses or other percentages. One basis point is 0.01% or one one-hundredth of a percentage point.

**Benchmark:** A point of reference for evaluating an account's performance. For accounts invested in stocks the S&P500® is a basic benchmark. Barclay's Capital Aggregate Bond Index may be used as a benchmark for accounts invested in bonds.

**Beta:** Indicates how closely an investment correlates to an index, such as the S&P 500®. A Beta of 1 shows very tight correlation. Investments with more or less risk than the index would have a Beta higher or lower than 1, respectively.

**Defined Contribution:** A type of retirement benefit plan that "defines" the contributions directed to the plan by the plan sponsor. Internal Revenue Code section 403(b) allows certain non-for-profit organizations to establish defined contribution plans.

**Diversification:** The process of allocating investments across more than one asset class to protect against the risk of putting an entire portfolio in one type of investment.

**Expense Ratio:** The percentage deducted from an annuity or mutual fund to pay for investment management and plan services (e.g., administration, education.)

**Fiduciary:** Exercises discretion over or directs plan assets.

**Funding Vehicle:** A combination of investments, recordkeeping and plan administration services with related plan services (e.g., education) that is selected by the plan sponsor as fiduciary to hold plan assets. Comparable to the trust arrangement in defined contribution plans not established under 403(b).

**Glide path:** In a target date fund, gradual change in asset allocation from a heavier weighting in stock asset classes to a heavier weighting in bond asset classes as the target date approaches.

**Index Funds:** Funds intended to mirror the performance of a particular benchmark, such as the S&P500®. They typically have lower expense ratios and somewhat lower standard deviation than actively managed funds in the same asset class.

**Money Market:** A fund that invests in short-term securities, such as Treasury bills. Returns generally reflect current short-term interest rates. With little risk, standard deviation tends to be low.

**Mutual Fund:** A financial vehicle that allows a group of investors to pool their money with a predetermined investment objective. A mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities (usually stocks or bonds).

**Plan Fees or Revenue Sharing:** A fee or credit authorized by the plan sponsor because a particular plan's service expenses may be more or less than anticipated in the expense ratio.

**Plan Sponsor or Plan Administrator.** The employer (not-for-profit organization).

**Participant:** An individual eligible for plan benefits, whether or not contributions are being made on behalf of this person. Also, the person's spouse or other specified beneficiary.

**Portfolio:** A holding of more than one mutual fund or annuity by a participant, i.e. mutual funds or annuities invested in different asset classes

**Provider or Service provider:** A firm contracted by the plan to provide recordkeeping, administration, education or similar plan-related services.

**R-squared:** Indicates how much of an investment's movement can be explained by its benchmark, such as the S&P 500®. A high r-squared, close to 100 on a scale of 1 to 100, indicates that performance is largely explained by beta (risk exposure).

**Rebalancing:** Maintaining a portfolio's mixture of asset classes. If not rebalanced, with different returns on its various asset classes, the portfolio could grow more aggressive or more conservative.

**Return:** The amount an investment changes in value (gains or losses) over a period of time, expressed as a percentage of the initial investment.

**Revenue sharing:** Annuity or mutual fund companies may pay another company a part of the expense ratio, to compensate for services by that other company (such as recordkeeping or distribution).

**Risk:** The likelihood that the value of an investment will rise or fall over time. Indicators of investment risk include: standard deviation; Sharpe ratio, and; alpha, beta, r-squared.

**Sharpe ratio:** A measure of risk-adjusted performance. Comparing similar investments, the investment with a higher Sharpe ratio has provided better returns taking into account risk.

**Standard deviation:** Indicates how much an investment's return varied from its average. Investment results in a narrow range result in low standard deviation; higher standard deviation indicates a wider range of returns (investment risk).

**Target Date Funds:** Funds that follow a glide path to automatically adjust asset allocation from more aggressive to more conservative as a specified year (e.g., 2025) approaches.

**Transaction Fees:** Fees charged for buying or selling certain funds.

**Transfer:** A movement of accumulated plan benefits between the available annuity and/or mutual fund accounts.

**Up /Down Capture:** The percentage of its benchmark increase/decrease that a fund captured during market cycles.

---

<sup>i</sup>This information is not intended as investment advice, or any other type of advice. In its choice of words, Well and Good LLC may have drawn upon third parties believed reliable but not necessarily investigated. The purpose of this Glossary is to help educate fiduciaries of plans subject to IRC 403(b), or similar plans established under other Code sections. Please direct any questions or suggestions to [Well and Good LLC](#). April 2014.