



*Navigating Your
Financial Future*



GLOSSARY OF COMMON FINANCIAL TERMS

While managing your finances, you may come across terms you don't understand. If you don't understand the terminology, you might not have a full grasp of the process. Increase your knowledge of terminology in the financial world with a glossary filled with the most common terms.



Account Qualification Types

ANNUITIES are classified into two distinct tax qualification types. Qualified or Non-Qualified. The general distinction between the two relates to whether a tax advantage exists with the premium source funding the contract.

NON-QUALIFIED contracts are funded with dollars which have already been taxed. These dollars are not initially tax-advantaged. Since annuities are a tax-deferred insurance product, it is the basis, or initial premium payment(s) in a contract from which the measure for gain is calculated. Generally speaking, any taxable withdrawal from a non-qualified annuity contract taken prior to 59 ½ is subject to the 10% early withdrawal penalty. Some exceptions apply.

QUALIFIED contracts are generally funded with pre-tax dollars. These dollars come into an annuity with an automatic tax advantage since tax isn't usually assessed on these monies until a future date when distributions are taken. Since annuities are tax-deferred products it may seem redundant to establish tax advantaged funds into an annuity contract. They do however offer certain features and/or benefits which make them attractive to a consumer.

Qualified annuities are funded by rollovers or transfers from an employer sponsored qualified plan, or via way of direct contributions to a specific kind of qualified annuity such as a traditional IRA, SEP IRA, SIMPLE IRA or Section 403(b) annuity. The Internal Revenue Code sets the maximum contribution limits for each tax year.

Generally speaking, a withdrawal from a tax qualified annuity contract taken prior to 59 ½ is subject to the 10% early withdrawal penalty. This penalty is imposed by the IRC and would apply to all amounts distributed from the contract.

Roth IRAs, funded with after-tax dollars, are also sometimes referred to as qualified contracts. Roth IRAs have their own special tax rules, more fully described below.

Common Types of Qualified Accounts

TRADITIONAL IRA This is a personal savings plan known as an individual retirement account. An IRA plan gives tax advantages for saving for retirement. Contributions to a traditional IRA may be tax deductible either in whole or in part. Also, the earnings on the amounts in a traditional IRA are not taxed until they are distributed. The portion of the contributions that was deductible also does not get taxed until distributed. A traditional IRA can be established at many different financial institutions, including banks, insurance companies, and brokerage firms.

ROTH IRA A Roth IRA is also a personal savings plan but operates somewhat in reverse compared to a traditional IRA. For instance, contributions to a Roth IRA are not tax deductible while contributions to a traditional IRA may be deductible. However, while distributions (including earnings) from a traditional IRA must usually be included in income, certain qualifying distributions (including earnings) from a Roth IRA are not included in income. A Roth IRA can be established at the same types of financial institutions as a traditional IRA. Required minimum distributions (RMDs) are not required from a Roth IRA during the account owner's lifetime.



SEP IRA This is an account for self-employed individuals or small business owners which may be established. SEP is short for Simplified Employee Pension. This plan type allows business owners a simplified method to contribute towards their employees' retirement as well as their own retirement savings. The plan must be offered to all employees, who are at least 21 years of age, employed by the employer for 3 of the last 5 years, and had compensation of at least \$600 in the current calendar year. Only the employer contributes and the amount may be up to 25% of compensation but not more than a designated amount. Deposits to a SEP are made into the employee's SEP IRA.

SIMPLE IRA Stands for Savings Investment Match Plan for Employees. This is an account for small business employers of 100 or fewer employees which may be established through employee salary reductions and employer non-elective or matching contributions. This plan type allows business owners to offer a retirement plan with minimal paperwork requirements. The plan must be offered to all employees who have compensation of at least \$5,000 in any prior two years and are reasonably expected to earn at least \$5,000 in the current year. Employers can choose less restrictive participation requirements if they like. Deposits to a SIMPLE plan are made into the employee's SIMPLE IRA.

Common Types of Qualified Plan Accounts

DEFINED CONTRIBUTION PLANS Is a retirement plan in which the employee and/or the employer contribute to the employee's individual account under the plan. The amount in the account at distribution includes the contributions and investment gains or losses, minus any investment and administrative fees. Generally, the contributions and earnings are not taxed until distribution. The value of the account will change based on contributions and the value and performance of the investments. Examples of defined contribution plans include 401(k) plans, 403(b) plans, employee stock ownership plans, and profit-sharing plans.

Typically, only as triggering event such as separation from service, age-based in-service withdrawal (attainment of age 59 ½), or termination of the plan allows for distributions to the participant or rollover out of the plan to an IRA.

DEFINED BENEFIT PLANS This plan type provides a fixed, pre-established benefit for employees at retirement. It is also known as a traditional pension plan, and it usually promises the participant a specified monthly benefit retirement. Often, the benefit is based on factors such as the participant's salary, age and the number of years he or she worked for the employer. The plan may state this promised benefit as an exact dollar amount, such as \$100 per month at retirement. Or, more commonly, it may calculate a benefit through a plan formula that considers such factors as salary and service. Generally, a defined benefit plan does not allow for in-service distributions to a participant before age 62. In some instances a plan may offer a lump-sum buyout as an alternative to ongoing benefits at retirement.



Tax Exempt and Government Entity Plans

403(b) TAX-SHELTERED ANNUITY (TSA) PLAN *This is a retirement plan offered by public schools and certain tax-exempt organizations. An individual's 403(b) annuity can be obtained only under an employer's TSA plan. Generally, these annuities are funded by elective deferrals made under salary reductions agreements and non-elective employer contributions.*

Typically, only a triggering event such as separation from service, age based in-service withdrawal (attainment of age 59 ½), or termination of the plan allows for rollover out of the plan to an IRA.

457(b) PLAN *This is a plan of deferred compensation described in IRC section 457 are available for certain state and local governments and non-governmental entities tax exempt under IRC 501. They can be either eligible under 457(b) allow employees of sponsoring organizations to defer income taxation on retirement savings into future years. Ineligible plans may trigger different tax treatment under IRC 457(f). Typically, only a triggering event such as separation from service, age based in-service withdrawal (attainment of age 59 ½), or termination of the plan allows for a distribution are eligible for rollover to an IRA.*

Financial Products

DEFERRED ANNUITY *A policy or contract purchased through an insurance company that is designed to secure a steady cash flow for an individual during their retirement years. The policy owned is taxed only when distributions are taken from the annuity. All annuities are tax deferred, meaning that the earnings grow tax-deferred until withdrawn.*

Earnings also remain tax-deferred. Fixed annuities guarantee a certain payment amount and are a relatively safe, low-yielding insurance product. When distributions are taken, they are subject to ordinary income tax rates. Taxable early distributions are usually subject to an extra 10 percent penalty tax.

LIFE INSURANCE *A policy or contract purchased through an insurance company. In exchange for premiums (payments), the insurance company provides a lump-sum payment, known as a death benefit, to beneficiaries in the event of the insured's death. The death benefit of a life insurance policy is usually income tax free.*

STOCK *A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. The two main types of stock are COMMON and PREFERRED. Common stock entitles the owner to vote at shareholder's meetings and to receive dividends. Preferred stock generally has no voting rights, but has a higher claim on the corporation's assets and earnings than a common shareholder.*

BOND *A bond, by contrast to a stock is also a type of security that represents a debt or loan to the organization such as a corporation or municipality.*



MUTUAL FUND *An investment vehicle (security) that is made up of a pool of funds collected from mutual investors for investing. Each fund is typically made up of shares of stocks, bonds, money market instruments etc..... which is operated by money managers who invest to produce the objective or style specific to each mutual fund.*

CERTIFICATE OF DEPOSIT *A CD/savings certificate/time deposit entitles the bearer to receive interest. CD's have a maturity date, a specified fixed interest rate and can be issued in most any denomination. They are generally issued by commercial banks and are insured by FDIC for a period ranging from a term of 1 month to 5 years.*

Annuity Basics – Common Types of Annuities

IMMEDIATE ANNUITY

- *A typical Immediate Annuity involves making a lump sum payment to an insurance company upfront, in exchange for the right to receive payments from the insurer on a regular basis. Immediate Annuity payments can be structured to pay for the rest of your life, for a fixed period of time (called “period certain”) – This act of giving up ownership of your lump sum in exchange for insurer-promised payments is called “Annuitization.” Generally, there is no account value associated with Immediate Annuities and no ability to withdraw your lump sum payment made.*
- *Payouts on most Immediate Annuities are most commonly determined by the insurer based on interest rates and life expectancy tables. For example, in a low interest rate environment a person or couple may expect smaller payment guarantees from an Immediate Annuity.*
- *Single Premium Immediate Annuity (“SPIA”) – A single premium payment is made to the insurer and payments begin virtually right away.*
- *Deferred Income Annuity (“DIA”) – Generally, a single premium payment is made to the insurer with a future income payment date established up front. In most cases this future income payment date cannot be adjusted. A DIA may offer higher payouts than a SPIA due to income payouts beginning at an increased age for the Annuitant.*

FIXED ANNUITY

- *A Fixed Annuity's account value increases based on a stated, guaranteed interest rate for a certain term period, or number of years within the contract. A Fixed Annuity may be “Annuitized”, or turned into an Immediate Annuity providing payouts in the future. But unlike the DIA above, you retain ownership of your account value and the flexibility to choose if and when to start receiving payments.*
- *Interest rates can be higher on Fixed Annuities than on bank CDs, and are also tax-deferred.*
- *Multi-Year Guarantee Annuity (“MYGA”) – another common name for a Fixed Annuity.*



VARIABLE ANNUITY

- *The only annuity type deemed an investment without principal guarantees. A Variable Annuity's returns are tied to a certain selection of insurance company offered "Subaccounts", or mutual funds.*
- *Variable Annuities are typically tax-deferred.*
- *Fees and charges may be higher among Variable Annuities than other annuity types, with common fees including Mortality & Expense Fees, Administrative Fees, fees for certain Income Benefits or Death Benefits, expenses tied to Subaccounts selected, among other costs. A prospectus must be provided with a Variable Annuity, and should be read to fully understand any fees and investment risks associated.*

FIXED INDEX ANNUITY

- *The Fixed Index Annuity's returns are typically linked to a fixed interest rate or the performance of an underlying market index. Unlike Variable Annuities, the Fixed Index Annuity provides principal guarantees and protection against loss due to poor market returns. Gains may be credited during periods of positive market index returns, but may be adjusted by elements such as Participation Rates, Caps, or Spreads. These terms should be carefully considered before purchasing a Fixed Index Annuity.*
- *Certain optional Income Benefit features may be added to a Fixed Index Annuity for an additional cost, providing future lifetime income guarantees at a point of the owner's choosing.*
- *Fixed Index Annuities are also typically tax-deferred.*

Life Insurance Basics - Common Types of Life Insurance

LEVEL TERM INSURANCE

- *Life insurance with a defined term period. Generally, the level periods are 10, 15, 20 and 30 years, followed by a period of annually renewable premium rates.*
- *After the level term period the owner can continue the term coverage at an increased premium amount or terminate the policy.*
- *During the conversion period, if available, the owner can convert, without evidence of insurability, to permanent coverage.*

NO LAPSE GUARANTEE (NLG) UNIVERSAL LIFE

- *Designed for those looking for a guaranteed death benefit to age 120 or greater.*
- *With only a few exceptions, NLG products are not designed to build any significant cash value.*
- *Generally used to maximize wealth transfer to the beneficiary.*

SECOND TO DIE UNIVERSAL LIFE (SUL)

- *Life insurance covering the lives of two people (usually married) that provides benefits to the beneficiaries only after the last surviving insured dies.*
- *Generally used for estate planning since no benefit is available for a surviving spouse.*
- *Available as a No Lapse Guarantee or Indexed universal Life policy.*

INDEXED UNIVERSAL LIFE INSURANCE (IUL)

- *Universal life insurance in which the cash value is credited interest based on outside economic indicators (subject to caps, floors, and participation rates of the company).*
- *Greater interest earning potential than fixed UL products.*
- *An interest floor of 0% eliminates the downside risk.*
- *Commonly used for college funding or supplementing retirement.*

Death Benefit Options

LEVEL DEATH BENEFIT *Death benefit is the greater of the specified amount (original death benefit at issue) or the cash value multiplied by the corridor factor.*

INCREASING DEATH BENEFIT *Death benefit is the greater of the specified amount (original death benefit at issue) plus premium paid to date or the account cash multiplied by the corridor factor.*

RETURN OF PREMIUM DEATH BENEFIT *Death benefit is the greater of the specified amount (original death benefit at issue) plus premium date to date or the cash value multiplied by the corridor factor. (Only available at issue; can change from this option after issue, but can't change to this option after issue)*

****What exactly is the "corridor?"** A life insurance policy must include an amount at risk. If the cash value approaches the face amount, the death benefit must increase so as to provide for this amount at risk. The minimum separation between the cash value and the death benefit is called the "corridor." If the corridor is not maintained, the policy is no longer considered an insurance product and becomes a Modified Endowment Contract (MEC) under the Tax Reform Act of 1954 and any loans, withdrawals, or surrenders will be taxed as ordinary income to the extent there is a gain in the contract.



MODIFIED ENDOWMENT CONTRACT (MEC)

- A MEC is a life insurance contract that fails to meet the 7-Pay test.
- Occurs if the accumulated premiums paid at any time during the first 7 years exceed a certain level premium calculation determined by the formula established by the IRS.
- If a contract is a MEC at issue, then it will remain that status for the life of the contract.
- If it isn't a MEC at issue and the premium stream in the first 7 years doesn't violate the IRA 7-Pay premium test, then it will remain a non-MEC for the life of the contract unless there is a material change in the contract (death benefit option changes, death benefit amount changes, etc.).
- If a policy is a MEC, then loans, withdrawals, surrenders, and assignments will be taxed as ordinary income to the extent that there is a gain in the contract (If the owner is younger than 59 ½ he or she will be assessed a 10% penalty on any gain from these disbursements.)

CVAT VS. GPT

- CVAT (Cash Value Accumulation Test) and GPT (Guidelines Premium Test) refer to the two basic alternatives for determining whether a product meets the requirements to qualify as a life insurance product.
- Both tests define the relationship between cash value and death benefit that is required at all times for a contract to qualify as life insurance.
- CVAT or GPT is chosen at the time of issue and cannot be changed, so the initial choice is very important.
- The basic differences:
 - CVAT will maintain a "net single premium" relationship between the cash value and death benefit. In other words, for every dollar of cash value, the death benefit must be at least the amount that could be purchased on a guaranteed basis using the cash value as a net single premium.
 - GPT limits premiums paid based on death benefit. For a given death benefit, GPT defines a "Guidelines Single Premium" and a "Guidelines Level Premium." Payment of premiums in excess of these amount is not permitted.

1035 EXCHANGE FOR LIFE INSURANCE

- IRS allows Exchange from one life insurance policy to another.
- You cannot 1035 Exchange an annuity into a life insurance policy. You CAN 1035 Exchange life insurance to an annuity.
- Ownership and insured must be "like to like".
- Any type of life insurance can be 1035 Exchanged except for a term policy.



Transfers & Rollovers

There are only two types of transfers, qualified and non-qualified transfers. They are broken down by the tax qualification.

QUALIFIED TRANSFERS are inclusive of tax advantaged funds and are reflective of a Direct Rollover, Direct Transfer, and Indirect Rollover.

DIRECT ROLLOVER is always from a qualified employer-sponsored plan to another qualified employer-sponsored plan or IRA. The owner never takes constructive receipt and funds are always sent direct from one custodian to the next for the owner's benefit.

DIRECT TRANSFER is always qualified to qualified, but the tax qualification type is same. Meaning IRA to IRA by example. The owner never takes constructive receipt and funds are always sent direct from one custodian to the next. There is no tax consequence and the financial product type is of no matter.

INDIRECT ROLLOVER is the instance of moving a qualified account to another qualified account, within the 60-day period allowed by the IRC. An account owner requests a distribution from a qualified account, takes constructive receipt of the proceeds, and provided the funds are re-established into a new qualified account within a period of 60 days, the distribution is free of any tax consequence. There are common potential issues that arise when indirect rollovers are used:

- *If the funds are coming from an employer-sponsored plan, the employer is generally required to withhold 20% of the distribution to send to the IRS as a tax deposit. That fact makes a complete rollover harder for some taxpayers to achieve.*
- *Only one indirect rollover from IRA to IRA is allowed in a 12-month period. NOTE: This rule only applies to indirect rollovers, not direct rollovers, according to current IRC.*
- *Indirect rollovers are not generally available with regard to inherited IRAs or other qualified accounts.*

NON-QUALIFIED TRANSFERS are inclusive of any non-tax advantaged money and are reflective of Section 1035 Exchange, Partial Section 1035 Exchange, and Taxable Transfers.

SECTION 1035 EXCHANGE is the IRC tax code which states you may move funds directly from an annuity or cash value life insurance contract to another like type of annuity or life insurance policy free of any tax consequence. You may NOT move from annuity to life. In order to properly effect and exchange, both the Owner and Annuitant or Insured must be the same on the previous and new contract (known as like to like). The account owner must never take constructive receipt or the distribution becomes immediately taxable. Provided the exchange is properly executed it is free from any tax consequence and the cost basis and gain in the contract are carried over to the new contract.

PARTIAL SECTION 1035 EXCHANGE is the same Section as Section 1035 exchange. These exchanges are generally allowed between annuities only. Not every nonqualified deferred annuity company will allow a partial 1035 exchange of its product. If it does allow a partial exchange, then the funds will be split on a proportionate basis between principal and gain to the new contract. Special rules are in place that say if a distribution is taken from either contract for a period of 180 days after the exchange, the exchange may not remain tax free.



TAXABLE TRANSFERS is the transfer between any other non-tax advantaged accounts. This means any non-qualified account, where tax consequences aren't from the transfer. If an account is liquidated and interest is applied it will be reportable, thus the term taxable transfer.

Common Terms and Definitions

CARRIER Another term used to define an Insurance Company.

Non-ACAT A transfer of funds that is initiated manually through paperwork; not electronically (ACAT). These transactions typically require the customer to liquidate their holdings to a cash position and a check is sent to the new company.

TRANSFER PAPERWORK The paperwork needed to transfer funds from one carrier to the other, there can be multiple transfers coming into one policy/account (multiple sets of transfer paperwork).

ANNUITANT the individual whose age and life expectancy are used to calculate the amount of annuity payments.

OWNER The individual who has control over the policy and received payments from an annuity plan under the terms of that plan.

JOINT ANNUITANT A person named in an annuity contract in addition to the owner/annuitant. This person's age and life expectancy are used along with those of the annuitant to calculate the amount of annuity payments.

JOINT OWNER An individual who co-owns an annuity contract with another person. Both have the right to make and approve decision relating to the contract. Most carriers require both owners to approve all changes, etc.

SURRENDER CHARGES A penalty imposed by the insurer if the contract owner terminates the annuity prematurely, by withdrawing all or a portion of funds above any penalty-free amount available.

BENEFICIARY The individual or legal entity receiving a death benefit when the annuitant/insured designated in the contract dies. The beneficiary cannot manage the annuity/life insurance contract – a right reserved solely for the contract owner.

Free-Look The provision in an annuity contract stating that the owner of the contract has between 10 and 30 days to review the contract immediately after buying it. It gives the buyer the chance to return the contract to the insurer for a total refund and is governed by state regulations, which may vary.



Common Life Insurance Abbreviations

CVAT	Cash Value Accumulation Test	SPIA	Single Premium Immediate Annuity
GPT	Guideline Premium Test	APS	Attending Physician Statement aka Doctor's Records
TIA	Temporary Insurance Agreement	Exam	Paramed Exam
ABR	Accelerated Benefits Rider	MVR	Motor Vehicle Report
LPR	Lifetime Protection Rider	PHI	Phone History Interview
ROP	Return of Premium		

Common Financial Abbreviations

DB	Death Benefit	NQ	Non-Qualified Account
EFT	Electronic Funds Transfer	POA	Power of Attorney
ESOP	Employee Stock Option Plan	PTP	Point-to-Point
ETF	Exchange Traded Fund	Q	Qualified Account
FRA	Full Retirement Age	RMD	Required Minimum Distributions
GLWB	Guaranteed Lifetime Withdrawal Benefit	SSI	Social Security Income
GMIB	Guaranteed Minimum Income Benefit	SSN	Social Security Number
GMWB	Guaranteed Minimum Withdrawal Benefit	T+3	Trade plus 3 days for cash to be available
IGO	In Good Order	TOD	Transfer on Death
IRA	Individual Retirement Account	TTEE	Trustee
LIBR	Lifetime Income Benefit Rider	WD	Withdrawal
LOI	Letter of Instruction		
LPOA	Limited Power of Attorney		
MF	Mutual Fund		
NIGO	Not In Good Order		



www.babcfo.com
404.855.0330
CPA@babcfo.com
11720 Amberpark Dr., Suite160, Alpharetta, GA 30009

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