PENSION ACRONYMS

- **457:** Deferred Compensation (457) Plan
- **AAL:** Actuarially Accrued Liability
- **ARC:** Annual Required Contribution
- **COLA:** Cost of Living Adjustment
- **ERISA:** Employee Retirement Income Security Act of 1974
- **FAC:** Final Average Compensation
- **FURS:** Firefighters' Unified Retirement System
- **GABA:** Guaranteed Annual Benefit Adjustment
- **GASB:** Governmental Accounting Standards Board
- **GWPORS:** Game Wardens' and Peace Officers' Retirement System
- **HAC:** Highest Average Compensation
- **HPORS:** Highway Patrol Officers' Retirement System
- **IRA:** Individual Retirement Account
- **IRC:** Internal Revenue Code
- **JRS:** Judges' Retirement System
- **MBOI/BOI:** Montana Board of Investments or Board of Investments
- **MPERA:** Montana Public Employee Retirement Administration
- **MPORS:** Municipal Police Officers' Retirement System
- **MUS-RP:** Montana University System Retirement Program
- **PERS:** Public Employees' Retirement System
- **PERS-DB:** PERS Defined Benefit Retirement Plan
- **PERS-DC:** PERS Defined Contribution Retirement Plan
- **PER Board/PERB:** Public Employees' Retirement Board
- **SAVA:** State Administration and Veterans' Affairs Interim Committee
- **SRS:** Sheriffs' Retirement System
- **TRS:** Teachers' Retirement System
- **UAAL:** Unfunded Actuarially Accrued Liability
- **VFCA:** Volunteer Firefighters' Compensation Act

PENSION GLOSSARY OF TERMS

- **<u>401(k) Plan</u>:** A defined contribution plan governed by section 401(k) of the Internal Revenue Code (IRC) that is offered to employees in the private sector. Employees voluntarily participate on an individual basis. A 401(k) allows an employee to set aside tax-deferred income for retirement purposes. In some 401(k) plans, the employer will match an employee's contributions dollar-for-dollar.

- **<u>403(b) Plan</u>:** A retirement plan governed by section 403(b) of the IRC that is similar but not identical to a 401(k) plan and is offered by nonprofit organizations, such as schools, universities, and some charitable organizations.

- **<u>457 Plan</u>:** A tax-exempt deferred compensation program governed by section 457 of the IRC that is made available to employees of state and federal governments and agencies. A 457 plan is similar to a 401(k) plan, except there are never employer matching contributions and the IRS does not consider it a qualified retirement plan.

- **<u>Accrued Benefit</u>:** A retirement, pension, or disability benefit that an employee has earned based on years of service. Accrued benefits are often calculated in relation to the employee's salary and years of service.

- **<u>Accumulated Contributions</u>:** The sum of all the regular and any additional contributions made by a member in a defined benefit plan, together with the regular interest on the contributions.

- **<u>Active Member</u>:** A member who is a paid employee making the required contributions and is properly reported for the most current reporting period.

- **<u>Actuarial Accrued Liabilities (AAL)</u>:** The portion of liabilities that exceed of the present value of all benefits payable under a defined benefit retirement plan compared to the present value of future normal costs.

- **<u>Actuarial Assumption</u>:** An assumption applied by an actuary for the purposes of estimating benefit costs. Assumptions are demographic and economic and include variables such as life expectancy, return on investments, interest rates, and compensation.

- **<u>Actuarial Cost</u>:** The cost determined by an actuarial analysis to represent the present value of benefits.

- **<u>Actuarial Valuation</u>:** An analysis conducted by an actuary that helps estimate future costs or liabilities using economic and demographic assumptions. The assumptions are based on professional actuarial standards and involve a mix of statistical studies and experienced judgment.

- **<u>Actuary</u>:** An accredited professional with expertise in applying statistics, mathematics, and financial theory to quantify risk and uncertainty to determine liabilities and costs.

- **<u>Additional Contributions</u>:** A member's payments to purchase various types of optional service credit.

- **<u>Annual Required Contribution (ARC)</u>:** Annual Required Contribution rate necessary to amortize unfunded liabilities in a DB plan over the number of years set by the retirement board's amortization policy (e.g., 30 years) as determined by the system's actuary.

- **Annuity:** In the case of a defined benefit plan, equal and fixed payments for life that are the actuarial equivalent of a lump-sum payment under a retirement plan and as such are not benefits paid by a retirement plan and are not subject to periodic or one-time increases. In the case of the defined contribution plan, an annuity is a payment of a fixed sum of money at regular intervals, which may or may not be for life.

- **Amortization Period:** The amount of time required to pay off a retirement system's unfunded actuarial accrued liabilities, or UAAL, calculated by the retirement system's actuary based on projected contributions and investment earnings.

- **Benefit Recipient**: A retired member, a joint annuitant, or a beneficiary who is receiving a retirement allowance.

- **Closed Amortization:** Under this appraoch, the unfunded liability is amortized over a set number of years (ex: 30 years). Each year the unfunded liability is re-determined, reflecting any gains and losses that have occurred, and amortized in 1 fewer year (ex: 29 years, 28 years, etc.). Every year the amortization period gets shorter, until it reaches one year, at which point the unfunded liability has been paid off and the plan is fully funded.

- **Cost of Living Adjustment (COLA):** Increases in a retirement benefit amount, usually a percentage and based on national economic data, e.g., consumer price index.

- **Deferred Compensation:** An arrangement, subject to IRC conditions and requirements, in which a portion of an employee's income is paid out at a date after which that income is actually earned. The primary benefit of most deferred compensation is that any taxes due on the income are deferred until funds are withdrawn under the arrangement. A 457 plan is a deferred compensation plan.

- **Defined Benefit Plan (DB):** A pension plan in which a retired employee is entitled to receive upon retirement a regular, periodic, specific amount based on the retiree's salary history and years of service.

- **Defined Contribution Plan (DC):** A retirement plan in which the employee is required to or elects to contribute some amount of salary into an individual account over which the employee has some control for investing the assets and options when making withdrawals at retirement.

- **Designated Beneficiary**: the person a member names to receive any survivorship benefits or lump-sum payments upon the member's death. Designated beneficiaries are either primary or contingent.

- **Direct Rollover:** A distribution from a qualified pension plan, 401(k) plan, 403(b) plan, and so forth, that is remitted directly to the trustee, custodian, or issuer of the receiving retirement plan or IRA and is reported to the IRS as a rollover.

- **Disability:** Total physical or mental incapacity of a member to do the essential functions of the member's job even with reasonable accommodations required by the ADA, for a permanent or extended and uncertain duration.

- **Early Retirement:** A retirement plan provision that allows an employee to retire before the normal retirement age or required years of service for a full retirement.

- **Employee:** A person employed in any capacity by a PERS employer who pays the person's salary.

- **Employee Retirement Income Security Act (ERISA):** The federal law enacted in 1974 that established legal guidelines for private pension plan administration and investment practices. Public retirement plans generally are not subject to ERISA.

- **Employer:** The state, its university system, or political subdivisions that contract with the Board to cover their employees under PERS.

- **Fiduciary:** A person or institution legally responsible for the management, investment and distribution of a fund. The trustees and administrators who are responsible for the oversight of employee benefit trust funds are considered fiduciaries. Fiduciaries are any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets; (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan or has the authority to do so; or (3) has any discretionary authority or responsibility in the administration of a plan.

- **Funded Ratio:** The value of a pension plan's assets in proportion to the pension liability.

- **Government Accounting Standards Board (GASB):** An independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow generally accepted accounting principles.

- **Guaranteed Annual Benefit Adjustment (GABA):** An annual increase in the prior year's benefit amount, usually as a percentage of the benefit, similar to a cost-of-living adjustment.

- **Highest Average Compensation (HAC):** A member's highest average monthly compensation during a set period of consecutive months of membership service.

- **Inactive Member:** A member who terminates service and does not retire or take a refund of the member's accumulated contributions.

- **Individual Retirement Account (IRA):** A tax-deferred retirement account for an individual that permits the individual to set aside money each year, with earnings tax-deferred until withdrawals begin.

- **Internal Revenue Code (IRC):** Title 26 of the United States Code. It is also known as the federal tax code.

- **Layered Amortization:** This approach is considered a hybrid of open and closed amortization approaches. Similar to closed amortization, the initial unfunded liability is amortized over a set amount of time (ex: 30 years). Any gains or losses that arise in future years will be amortized over new amortization periods, which is similar to the open amortization approach. With each valuation, a new closed layer gets added to the amortization schedule. The amortization of the original unfunded liability and gains and losses from prior years remain unchanged, providing the expectation that the plan will become fully funded over the original amortization period if there are no significant gains or losses.

- **Member:** Any person with contributions and service on account with the PERS. Persons receiving retirement benefits based on previous service credit are also members.

- **Money Purchase Plan:** A type of defined contribution retirement plan in which the annual contribution amount is in proportion to the employee's wages and is mandatory every year.

- **Normal Cost:** An amount calculated under an actuarial cost method that is the estimated cost of the accruing benefits for members of a defined benefit retirement plan. It is determined for each valuation period. Normal cost does not include any portion of the supplemental costs of a retirement plan.

- **Normal Retirement Age:** The age at which a member is eligible to immediately receive a retirement benefit based on the member's age, length of service, or both, as specified under the member's retirement system, without disability and without an actuarial or similar reduction in the benefit.

- **Open Amortization:** Under this approach, the unfunded liability is amortized over a set amount of years (ex: 30 years). Each year the unfunded liability is re-calculated and amortized over a new set amount of years (ex: 30 years). This is the approach used in Montana with a 30-year amortization period.

- **Pension:** Steady income given to a person as the result of service (e.g., employee, military) that begins when a specific event (e.g., disability, retirement) occurs. Pensions are typically paid monthly and based on factors such as years of service and prior compensation. The payment may be made by a government, employer, pension fund, or life insurance company.

- **Portability:** The ability of an employee to retain benefits, such as in a pension plan or insurance coverage, when switching employers.

- **Qualified Plan:** A plan that meets the applicable requirements of the Internal Revenue Code and, if applicable, the Employee Retirement Income Security Act. A qualified plan is eligible for favorable tax treatment.

- **Roth IRA:** A type of IRA established under the Taxpayer Relief Act of 1997 that allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed.

- **Smoothing:** The process of amortizing investment gains and losses over a period of time to help reduce volatility in contribution rates.

- **Tax Deferred:** The payment of taxes in the future on income earned in the current period.

- **Termination or Termination of Service:** Means the member has left the employment relationship for at least 30 days, has no written or verbal agreement to return, and has been paid all compensation due, including but not limited to payment of accrued annual and sick leave. Upon termination, the member will cease to accrue benefits attributable to that employment.

- **Unfunded Actuarial Accrued Liabilities (UAAL):** The excess of a defined benefit retirement plan's actuarial liabilities at any given point in time over the value of its cash and investments on that same date.

- **Vested:** The status of a plan member who meets the minimum membership service requirement of the system or plan to which the member belongs and who is thus eligible to receive a benefit.