

Key Wealth Institute

Retirement Glossary

When it comes to planning for your retirement, it can sometimes be difficult to navigate through the countless industry terms you encounter. Key Wealth realizes the importance of understanding retirement accounts and the different aspects associated with them. Use our Retirement Planning Glossary as a tool to help you better assess your options.



Adjusted Gross Income — An interim calculation used in computing income tax liability. It is computed by subtracting certain allowable adjustments from gross income.

Asset Allocation — The process of determining how investment funds will be apportioned among different asset classes, such as stocks, bonds, and cash reserves. Many financial advisers believe that the mix of asset classes has a greater impact on long-term portfolio results than does the performance of any individual investment.

Compounding — Earning money on a principal investment and its interest, usually calculated on a monthly or yearly basis. Compounding is said to be one of the best ways to create wealth.

Coverdell Education Savings Account — A type of account (previously called the Education IRA) created under the Taxpayer Relief Act of 1997, established exclusively for paying qualified education expenses of the designated beneficiary. Contributions are non-deductible and earnings are tax free for qualified withdrawals.

Retirement Glossary

Death Distribution — The payment of retirement funds to a beneficiary upon the death of the owner.

Deduction — Expense allowed by the Internal Revenue Service to be subtracted from an individual's gross income before figuring a person's taxable income. Certain Traditional IRA contributions are classified as a tax deduction.

Defined Benefit Plan — A qualified plan designed to pay a benefit, typically based on a percentage of salary, at retirement. The employer, not the employee, funds the plan.

Defined Contribution Plan — A qualified retirement plan, such as a 401(k) plan, whose benefits depend on the amount contributed by the employee/employer and the earnings of those contributions.

Direct Rollover — The movement of funds from a qualified retirement plan into an IRA without the account owner taking receipt of the funds.

Distribution — Withdrawing funds from a retirement savings plan.

Diversification — Strategy for reducing the risk of investing in a single industry/market sector or a small number of companies, by spreading the risk over several industries/market sectors or a larger number of companies.

Dollar Cost Averaging — A method of accumulating assets by investing a fixed amount of dollars in securities at set intervals, regardless of stock market movements.

Early (premature) Withdrawal — A withdrawal of funds from an IRA, a 401(k) plan, or any tax-qualified retirement plan, usually before age 59½. Early withdrawals are subject to tax penalties, though there are some exceptions.

Earned Income Rule — Rule regarding eligibility to contribute to certain types of IRAs. For a Traditional or Roth IRA, an individual must have earned income to contribute. Earned income includes but is not limited to wages, salaries, bonuses, tips, commissions, and taxable alimony.

Education IRA — See Coverdell Education Savings Account.

Employer-Sponsored Retirement Plan — A Defined Contribution or Defined Benefit retirement plan. The most common types are 401(k), 403(b), Profit Sharing Plans, and Pension Plans. Other types include SEP, Keogh, and SIMPLE plans.

Excess Contribution — Any IRA contribution that exceeds the maximum contribution limits permitted by law. Penalty taxes apply for each year an excess contribution exists.

FDIC — The Federal Deposit Insurance Corporation is an independent agency created by Congress to maintain stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, and managing receiverships.

Form 5329 — The IRS tax form on which early (premature) withdrawals are reported.

Form 8606 — The IRS tax form on which non-deductible IRA contributions are reported.

401(k) Plan — A retirement plan that enables employees to set aside a portion of their compensation in a special account, often with matching contributions from the employer. Contributions and earnings grow tax deferred until withdrawn — ideally at retirement.

Individual Retirement Account (IRA) — A tax-deferred retirement plan that an individual with earned income can open. Some individuals may deduct their IRA contributions from their taxable income.

Inflation Risk — The risk that the purchasing power of your investment will be eroded by inflation. Because more conservative investments generally provide the lowest returns over time, they are generally more exposed to possible inflation risk.

IRA Rollover — The movement of IRA funds from one IRA provider or qualified retirement plan to the account owner, and then to another IRA provider. The account owner has 60 days to complete this transaction before the transaction is considered a taxable distribution of funds.

IRA Transfer — The movement of IRA funds directly from one IRA provider to another without the IRA owner taking receipt of the funds. This transaction is sometimes referred to as a Trustee-to-Trustee transfer.



Retirement Glossary

Life Expectancy — The average number of years an individual is expected to live based on current age. Life expectancy tables provided by the IRS are used in calculating Required Minimum Distributions and Substantially Equal Periodic Payments for IRA distributions.

Lump Sum Distribution — One-time payment of entire retirement account balance within a single tax year. Will trigger tax implications and early withdrawal penalty if taken before age 59½.

Matching Contributions — An employer contribution to an individual's 401(k) account based on the amount the individual contributes. For example, the employer may match 50 cents for every dollar the individual contributes.

Qualified Retirement Plan — A Defined Benefit or Defined Contribution retirement plan that receives special tax treatment because it meets the requirements of the Internal Revenue Code.

Recharacterization — Moves money from a Traditional IRA to a Roth IRA or vice versa. It changes the designation of a specific contribution from one type of IRA to the other.

Required Minimum Distribution (RMD) — The minimum dollar amount an IRA owner must withdraw each year beginning at age 73. (Effective January 1, 2023, U.S. Congress passed the Secure Act 2.0, which increased the RMD to age 73 for those born between 1951 and 1959, and age 75 for those born in 1960 and later.)

Required Beginning Date (RBD) — The deadline by which an IRA owner must take the first Required Minimum Distribution. The RBD is April 1 after the year in which the IRA owner turns age 73 or age 75 for those born in 1960 and later.

Rollover — A tax-free movement of funds from one tax-qualified plan to another or to an IRA.

Rollover IRA — An account composed of funds that are transferred from an employer-sponsored retirement plan, often a 401(k) or 403(b), or a different IRA provider.

Roth IRA — A type of IRA established under the Taxpayer Relief Act of 1997. A Roth IRA is funded with after-tax dollars, allows for tax-free growth and tax-free withdrawals, has no required minimum distributions, and offers the ability to withdraw the contributions penalty free at any time.

Roth IRA Conversion — The process of moving funds from a pretax retirement account such as a Traditional IRA, SEP IRA, or 401(k) to a Roth IRA. Income taxes must be paid on the amount converted in the year of the conversion. After conversion, the funds will grow tax free and can be withdrawn tax free in retirement.

Self-Directed IRA — An IRA that allows the individual to select the investment options that best fit their investment objectives. The investment choices include stocks, bonds, mutual funds and other funds and other investment vehicles, Certificates of Deposit, and other savings vehicles.

Simplified Employee Pension Plan (SEP) — An employer-sponsored retirement plan that is designed for owners of small businesses or self-employed individuals. Contributions are tax deductible, and earnings are tax deferred. Qualified individuals can contribute a fixed percentage of their earned net income (the lesser of 25% of compensation or \$72,000 for 2026). SEPs are more flexible, easier to set up, and simpler to administer than many other qualified plans.

Substantially Equal Periodic Payments (SEPP) or 72t distribution — A type of distribution from an IRA or qualified retirement plan before age 59½ without the 10% early federal withdraw penalty. Payments must be calculated using IRS-approved methods (amortization, annuitization, or RMD) and continue for at least five years or until age 59½, whichever is longer.

Tax-Deferred — The postponement of taxes on accumulated investment earnings until funds are withdrawn.

Traditional IRA — Individual Retirement Account (IRA) is a tax-advantaged account designed specifically for retirement savings.

Vested — For a retirement savings plan participant, vesting refers to the gradual granting of ownership of contributions made by your employer.



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