Glossary of Investment Terms

Age 50+ Catch-Up Contributions — Tax-deferred contributions in excess of the IRS annual tax-deferred contribution limit, made by eligible participants age 50 and older.

Annuity — A form of distribution under the Deferred Compensation Plan that makes a series of payments of a fixed amount and at regular intervals over a specified period.

Beneficiary — A person who you designate to receive your Pension Plan benefit or Deferred Compensation Plan account balance when you die.

Bond — An obligation to repay a debt, which can be issued by governments or corporations. Bond funds purchase bonds, meaning they lend money to the bond issuer who, in return, typically promises to make regular interest payments, with full repayment of the original debt on a specific date in the future.

Capital appreciation/depreciation — A gain/loss in the market price of an investment from the time you purchase it to the time you sell it.

Cash equivalents — High-quality, very liquid securities that mature in less than three months and can be easily converted to cash.

Debt instrument/obligation — Another term for "bond."

Deferred Compensation 457 Plan — A retirement investment vehicle offered to eligible employees and elected officials of the State of Wyoming and any of its political subdivisions through the Wyoming Retirement System. The number "457" refers to the section of the Internal Revenue Code that authorizes this type of plan, and the terms "457" and "deferred compensation" can be used interchangeably. Contract employees of the State of Wyoming (AWECs) are not eligible at this time.

Defined benefit plan — A type of plan, including a pension plan, that provides a benefit that is determined on the basis of a formula rather than investment performance.

Defined contribution plan — A type of plan, like the Deferred Compensation Plan, in which the amount invested is "defined" or determined by the participant, but the value at retirement is determined by the performance of the participant's investments.

Diversification — The spreading or lowering of risk by investing in many different types of investments.

Dividend — A cash payment from profits announced by a company's board of directors and distributed to its shareholders.

Employer matching contributions — Contributions from your employer to the Deferred Compensation Plan.

Equity — Ownership in a company, usually in the form of stock.

Fiduciary — An individual or group of individuals responsible for operating the Pension and Deferred Compensation Plan using sound judgment in the interest of all plan participants and beneficiaries. Fiduciaries may include employees who administer the plan, members of the WRS Board of Directors, investment advisers, trustees, and certain others.

Fixed income securities — See "Bond."

Growth — An increase in the value of an investment.

Income — The flow of money to an investor, typically in the form of dividend or interest payments.

Index — A collection of investments that are tracked for purposes of comparison. For example, the Standard & Poor's 500 Index (S&P 500) tracks the performance of 500 companies representing a broad range of industries in the U.S. economy. The S&P 500 Index is often used as a "benchmark" or point of comparison when evaluating the performance of large-cap stock funds.

Inflation — An increase in consumer prices that results in a decrease in your "spending power," or the amount you can purchase with your dollars. Any return above inflation is called the "real return" of your investment.

Interest — The amount a borrower pays to a lender for the use of the lender's money.

Investment horizon — The period during which you plan to keep your money invested. A short investment horizon is considered to be less than three years, a moderate investment horizon is considered to be three to ten years, and a long investment horizon is considered to be ten years or more.

IRS annual plan contribution limit — The limit on the amount you can contribute to the Deferred Compensation Plan in a given year, as determined by the IRS. In 2011, the IRS set the limit to $16,500 for participants under age 50, and $22,000 for participants who will be age 50 or older as of December 31, 2011.

Large-cap stock — The stock of companies with market values of greater than $10 billion.

Managed portfolio — A fund holding investments that are selected and overseen by professional investors.

Market capitalization — The total value of a company's stock held by shareholders; determined by multiplying the current market price per share by the total number of shares outstanding.

Market risk — The risk that fluctuations in the stock or bond markets will cause an investor to lose money.

Mid-cap stock — The stock of companies with market values in the $2 billion to $10 billion range.

Money market instruments — Short-term debt instruments, such as certificates of deposit (CDs), Treasury bills, commercial paper, and other very liquid, low-risk investments.

Mutual fund — A pool of stocks, bonds, and/or other securities purchased and managed by professional investment managers.

Pension Plan — A defined benefit plan that provides a monthly income when you retire, payable for life. WRS administers several different pension plans for different groups of public employees. Most public employees are members of the Public Employees Pension Plan.

Portfolio — A collection of two or more investments combined to achieve a financial goal.

Principal investment — The original amount of money invested.

Prospectus — A document that describes a mutual fund offering, including the terms, issuer, objective, and historical financial statements.

Real return — The "inflation-adjusted" return, or the return an investment provides above the prevailing inflation rate. For example, an investment earning 7% during a period of 3% inflation has a real return of 4% (i.e., 7% minus 3%). (Non-inflation-adjusted return is called "nominal" return.)

Return — The gains or losses on your investments. Return is expressed as a percentage or "rate of return." Return may include income from interest or dividends as well as appreciation or depreciation of the value of the investment.

Risk — A measure of the likelihood of experiencing a loss.

Rollover — A transaction in which part or all of your contributions and earnings are transferred to an eligible retirement plan, including an individual retirement account (IRA) or another employer's plan qualified under IRC Section 401(a), 401(k), 403(b), or 457(b).

Small-cap stock — The stock of companies with a market value below $2 billion.

Stability — The degree to which the price of an investment does not fluctuate.

Stock — A share of ownership in a company (also called "equity"). When you buy stock, you become an owner of that company.

Stock exchange — A place where stocks and other securities are traded.

Tax-deferred contributions — Contributions to the Deferred Compensation Plan that you elect to have withheld from your paycheck before taxes are withheld. Payment of taxes on your contributions and earnings is deferred until you withdraw the money from the plan.

Trustee — The person(s) or company(ies) responsible for maintaining a trust and its assets.

Treasury bills, notes, and bonds — Treasury bills (or "T-bills") are short-term bonds issued by the U.S. government, typically with a maturity of three months to one year. Treasury notes (or "T-notes") typically mature in two to ten years. Treasury bonds (or "T-bonds") are long-term bonds issued by the U.S. government that typically mature after ten years. These all are considered to be low-risk investments.

U.S. Treasury and federal agency obligations — Obligations that include "Treasury bills," "Treasury notes" and "Treasury bonds" issued by the U.S. Department of the Treasury, as well as bonds issued by federal agencies such as the Federal National Mortgage Agency and the Federal Farm Credit Bureau.

Vesting — The process of acquiring ownership of your plan account. You are always fully vested in your own contributions to your account and any related earnings.

Volatility — The degree to which investment returns vary for a particular investment. It is commonly measured statistically as the annual standard deviation or variance of an investment's returns.

WRS — The Wyoming Retirement System. WRS is administered by a Board of Directors, which is responsible for overseeing the administration and investment direction of the Pension plans, and for selecting the investment options offered under the Deferred Compensation Plan. The WRS Board is not responsible for the investment results you achieve under the Deferred Compensation Plan.

Yield — The interest earned from holding a bond to maturity, expressed as a percentage of the bond's current price. Investors generally determine bond values by comparing yields.