



# Glossary of Terms

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**Actuarial Assumptions:** factors used by the actuary in forecasting uncertain future events affecting pension costs; they involve such things as interest and investment earnings, mortality rates and turnover\*

**Actuarial Reserve:** a method of financing a retirement plan where reserves are accumulated as the liabilities for benefit payments are incurred in order that sufficient funds will be available on the date of retirement of each member to pay future benefits\*

**Actuarial Status:** the status of funds set aside under a pension plan and whether or not those funds will be sufficient to meet the pension payments as provided in the plan

**Age-Reduction Factor:** a multiplier used in the calculation of PEERS age-reduced early retirement benefits. The Age-Reduction Factor is based on your age at the time of PEERS retirement.

**Applicable Formula Factor:** a multiplier used in the calculation of PEERS benefits. The Applicable Formula Factor is based on your years of service credit and/or age, and your eligibility for either normal, early or modified (25-and-Out) retirement formulas

**Certificate of Deposit (CD):** a written certification by a bank or other financial institution that a fixed dollar amount has been deposited for a fixed period of time at a predetermined rate of interest

**Compensation:** all regular earnings by a PEERS member as an employee of a PEERS-covered employer are subject to retirement contributions. Compensation or salary includes, but is not limited to, payments for extra duties, overtime payments and employer-paid medical, dental and vision insurance premiums for the member (This definition became effective 7/1/97)

**Consumer Price Index for Urban Consumers:** a series of numbers whose ratios measure the relative prices at various times of a fixed market basket of goods and services that typify those bought by urban families; the CPI is a measure of inflation\*

**Cost-of-Living Adjustment (COLA):** adjustment of monthly benefits designed to offset changes in the cost of living, as measured by the Consumer Price Index for Urban Consumers

**Defined Benefit Plan:** a plan that uses a definite formula by which employee benefits are calculated; in defined benefit plans, employer's and employee's contributions are determined based on actuarial assumptions (See definition above)

**Electronic Funds Transfer (EFT):** the electronic transmission of funds to a financial institution – direct deposit

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**Eligible Rollover Distribution:** funds that can be rolled over to an IRA or to another employer plan that accepts rollovers; in general, only the “taxable portion” of pension plan funds are eligible rollover distributions

**“Employer Pick-up” (EPU) Contributions:** refers to pension plan contributions made by the employee that are tax-deferred until they are paid to the member or to the member’s beneficiary as a lump-sum refund or a monthly benefit

**Family and Medical Leave Act (FMLA):** requires employers with more than 50 employees to provide eligible workers with up to 12 weeks of unpaid leave each year for birth, adoptions, foster care placements, and illnesses of employees and their families\*

**Fiduciary:** indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person. For example, the relationship between a trustee and the beneficiaries of the trust\*

**Final Average Salary (FAS):** Final Average Salary is determined by adding your three highest consecutive years of salaries (including board-paid health, dental and vision insurance) and dividing the total by 36 months. In determining Final Average Salary, PEERS disregards any increase in compensation in excess of 20% from one school year to the next in the final average salary period. This cap does not apply to increases due to a bona fide change in position or employer or increases required by state statute or district-wide salary schedule adjustments for previously unrecognized education-related service.

**Insurable Interest:** a person’s or party’s financial interest in the continuing life of an individual

**Partial Lump Sum Option (PLSO):** a benefit payment plan that allows qualified members of PEERS who work three years beyond normal retirement eligibility to elect to receive a one-time, lump-sum payment at the time of retirement in exchange for reduced lifetime monthly benefits

**Reciprocity:** the ability to transfer or recognize credit from one public retirement system to another based on mutual agreements between the systems

**Remit:** to send money to a person or place in payment of an account or draft

**Residual Beneficiary:** the individual or legal entity designated to receive a lump-sum refund of any account balance remaining after the member and the Joint-and-Survivor (Option 2, 3 or 4) beneficiary are deceased

**Rule of 80:** any combination of age and creditable service that equals 80. Age and creditable service are both rounded to five decimal places (80.00000).

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**Rule of 86:** any combination of age and creditable service that equals 86. Age and creditable service are both rounded to five decimal places (86.00000).

**Statutory Succession of Beneficiaries:** A statute which, in the absence of a current beneficiary designation by the member, defines which individuals will be designated beneficiaries, and in what order of precedence, for the purpose of receiving benefits

**Tax-Deferred Rollovers:** a reinvestment made within 60 days of a lump-sum distribution from one qualified retirement plan to another; federal income tax on the distribution is deferred until the benefits involved are finally distributed from the recipient plan

**Termination of Membership:** PEERS membership is automatically ended when a non-vested member is out of PEERS-covered employment for five consecutive school years. Membership is also terminated by retirement, death, or by the refund of the member's funds from the Retirement System

**Testamentary Trust:** a trust that is set up in a will; the creator of the trust is the person who is no longer living and the trustee, as identified in the will, is the person who manages the property for one or more beneficiaries

**Vesting:** when a member has enough service to qualify for a future retirement benefit without additional PEERS-covered service. In PEERS, vesting occurs with five years of service

\*This information was taken from *Employee Benefit Plans: A Glossary of Terms*, Ninth Edition, ed. Judith A. Sankey (Brookfield, WI: International Foundation of Employee Benefit Plans, 1997).