401(k) Plan – a defined contribution (DC) plan which meets the requirements of Internal Revenue Code (IRC) Section 401(k). Most 401(k) plans permit employees to enter into salary reduction agreements. The employer contributes the employee's deferred compensation to the plan on the employee's behalf. Some 401(k) plans contain a Cash or Deferred Arrangement. Under these arrangements, an employee may elect to receive all or part of an employer's contribution in cash and have the remainder deferred under the plan.

Account Balance – the active participant's account net of outstanding loan amounts. The average account balance is calculated as total net assets in that category divided by the number of participants in that category.

Cliff Vesting – vests 100 percent of employee contributions after a specified number of years of service. Example: After three years of service, benefits must be fully vested.

Deferral Percentage – the ratio of: 1) an employee's elective deferrals and contributions for him treated as elective deferrals for the plan year; and 2) the employee's compensation for the plan year.

Defined Benefit Plan – a type of retirement plan in which the plan sponsor promises to provide plan members a specific retirement income. The plan usually defines this amount in terms of a percentage of salary or flat dollar amount, multiplied by years of service.

Defined Contribution Plan – a type of retirement plan that provides an individual account for each participant and in which benefits are based solely upon the amount contributed to the account (plus or minus any income, expenses, gains, and losses allocated to the account.) Commonly used defined contribution plans include money purchase, profit sharing, and 401(k) plans.

Distribution – the money paid to a plan participant due to a benefit event.

Eligible Rollover Distribution – the distribution to an employee of all or any portion of the employee's qualified plan benefit except the following:
- Hardship withdrawals
- Periodic payments
- PS 58 cost of insurance
- Return of excess deferrals, excess contributions, or excess aggregate contributions due to 401(k) testing
- Required distributions
- Loans in default
- Return of 401(k) deferrals due to 415 limits

Employee Retirement Income Security Act of 1974 (ERISA) – Congress passed this pension reform bill in 1974, and President Ford signed it into law on September 2, 1974. This act provides protection and guarantees for employees covered by private pension and welfare plans, and for their beneficiaries. The U.S. Department of Labor (DOL) controls some of these provisions; the Internal Revenue Service (IRS) controls others.

Employee Stock Ownership Plan (ESOP) – combines a vehicle for corporate financing and an employee benefit plan. It is a defined contribution plan. Also known as Employee Stock Ownership Trust.

Typically, the employer creates an employee stock ownership trust and either contributes or sells the stock to the trust. If contributing stock, the employer deducts the fair market value of the contribution as a business expense on the tax return. If the trust buys the stock, it may take a loan with a lending institution pledging the stock as collateral. The employer may also guarantee the repayment of the loan. The trust then pays off the loan from contributions it receives from the employer. The employer gets a tax deduction for contributions made to the trust (generally limited to 25 percent of covered employees' payroll). Employees do not pay taxes on these contributions until receiving a distribution.

Normally, if borrowing the money, the employer could deduct only the interest on the loan. In the ESOP situation, the employer may deduct the full amount of the contributions used to pay off the principal and interest of the loan.

No set benefits apply to an ESOP since all benefits relate directly to the value of the corporation's stock. Also, an ESOP, like other defined contribution plans, receives no guarantees from Pension Benefit Guaranty Corporation.

Fiduciary – a fiduciary holds or controls property for the benefit of another. ERISA defines a plan fiduciary as any person who:
- Has discretionary authority or discretionary control over the management of a plan or the management or disposition of its assets.
- Gives investment advice for a fee or other compensation, direct or indirect with respect to any money or other property of such plan, or has any authority or responsibility to do so.
- Has any discretionary authority or responsibility in running a plan. In general, being a fiduciary shows a relationship of trust and confidence.

Plan fiduciaries include trustees, plan administrators, and investment advisors.

Funded Status – a comparison of plan assets and liabilities. Funded status varies based on assumptions and methods used to determine assets and liabilities.

Matching Contributions – contributions made by an employer to a plan on an employee's behalf when the employee makes elective or non-elective contributions.

Nonqualified Deferred Compensation Plan (NQ) – a pension or profit sharing plan which does not meet the requirements of the Internal Revenue Code (IRC).

Participant – a person covered under a plan, or an employee or former employee who may become eligible or currently receives benefits under the plan as a result of earned credited service. The term member is often used instead of participant.

Plan Sponsor – the entity that starts and/or maintains a retirement plan. An entity consists of a single employer, an employee organization (union) and an employer, or a group of two or more employers and employee organizations.

Rollover – the transfer of an eligible rollover distribution from a qualified plan or an IRA (Individual Retirement Account) to an individual and then from the individual to another qualified plan or IRA. When the transfer occurs within 60 days of the distribution date, the transfer will be on a tax-free basis. Participants may elect to rollover the account balance only when a "benefit event" occurs (retirement, death, or disability).

Principal Total Retirement Suite℠ – a bundle of comprehensive plan and administrative services, including two or more of the following plan designs: qualified defined benefit, qualified defined contribution, qualified employee stock ownership plans, or nonqualified retirement plans (defined benefit and defined contribution).

Vesting – the period of time an employee must work at a firm before gaining access to employer-contributed pension income. For 401(k) plans, employee contributions are immediately vested, but employer contributions may be vested over a period of years.