

CFP Alphabet Soup

The financial community frequently uses abbreviations. Many of these appear on the CFP Board Exam. Match the abbreviations shown below with the descriptions that follow. See if you can finish this exercise in no more than thirty minutes.

1. AOC _____
2. BPS _____
3. CMO _____
4. Reg D _____
5. EFC _____
6. FOMC _____
7. GDP _____
8. HO-15 _____
9. IRR _____
10. JTWROS _____
11. K-1 _____
12. LLC _____
13. MAGI _____
14. NAV _____
15. OASDI _____
16. PV _____
17. QBI _____
18. RSU _____
19. SEP _____
20. TIC _____
21. UIT _____

22. VUL _____

23. W-2 _____

24. XD _____

25. YRT _____

26. Z tranche _____

CFP ALPHABET SOUP ANSWERS and RATIONALE

- A. UIT stands for Unit Investment Trust which is an unmanaged portfolio of securities, most typically municipal bonds.
- B. MAGI stands for Modified Adjusted Gross Income which is gross income less certain deductions. MAGI may be used to determine eligibility for certain tax benefits.
- C. HO-15 is an endorsement added to a Homeowner's insurance policy for open perils coverage on the insured's personal property. It is typically combined with HO-3 coverage.
- D. OASDI stands for Old Age, Survivors and Disability insurance tax. It is that portion of FICA tax that does not address Medicare. It is imposed on earned income up to the "taxable wage base."
- E. JTWRROS stands for Joint Tenants with Rights of Survivorship. It is an arrangement under which two or more adults own equal interests in an asset for legal, estate planning, and tax purposes.
- F. Form K-1 is used to report the amount of annual profit, gain, or loss attributable to owners of pass-through entities including limited and general partnerships, S Corporations, as well as trusts and estates and other types of entities.
- G. FOMC stands for the Federal Reserve Board's (FRB) Federal Open Market Committee. The FOMC influences the U.S. Money Supply by alternately infusing the domestic banking system with cash or securities. FOMC has a strong influence on short-term interest rates and on unemployment rates.
- H. AOC stands for the American Opportunity Credit. It is a credit against income tax due for up to \$2,500 per student, per year relating to amounts paid for undergraduate college tuition and fees.
- I. RSU stands for Restricted Stock Unit. This executive perk generally based on performance and years of service grants stock. Presuming the granting employer stays afloat, (unlike rights--which may expire worthless) the RSUs will have some amount of value.
- J. NAV stands for Net Asset Value. It is the per-share value of a mutual fund net of certain expenses. Mutual fund shares are generally redeemed at NAV. Certain "no-load" mutual funds may also be purchased at NAV.
- K. YRT stands for Yearly Renewable Term (life insurance). For individuals, renewability is provided without new underwriting but generally the premium rises along with the insured's age. Group life insurance plans often feature YRT.
- L. Z-Tranche represents the riskiest level that an investor in a Collateralized Mortgage Obligation can assume. It carries no holding period interest and is the last selection to receive payout.
- M. EFC stands for Expected Family Contribution, namely the amount of money that a student and family would need to contribute to college costs before financial aid becomes available.

N. BPS stands for basis points. One hundred basis points represent one full percent. BPS mean one one hundredth of one percent.

O. QBI stands for qualified business income meaning income distributed to an owner or investor from a pass-through entity such as an LLC, S Corp, REIT or other pass through. A below-the line deduction of up to 20% of QBI may be available.

P. TIC stands for tenants (or tenancy) in common. It is a form of property ownership that permits unequal amounts of interest among tenants.

Q. XD stands for Ex-dividend meaning that the stock trade will not be eligible for distribution of the current dividend.

R. SEP stands for Simplified Employee Pension. A SEP is an IRA arrangement entirely funded by an employer or the self-employed. It permits larger contributions than those for non-employer- funded IRAs.

S. PV stands for Present Value meaning the amount of money with which an investment or savings scenario begins. Present value may present a prior starting amount or a current starting amount.

T. W-2 is the tax form by which reporters report wages, withholding elective deferrals and other information to their employees

U. Reg D represents a body of Securities and Exchange rules that apply to new issues of private placement securities. Reg D requires disclosure and limits the number of non-accredited investors.

V. LLC stands for Limited Liability Corporation which generally means a corporation choosing to be taxed as a partnership. It offers the limited liability of corporations as well as the pass through nature of a partnership.

W. CMO stands for Collateralized Mortgage Obligation which means a substantial pool of mortgage – backed securities created by a brokerage firm. An investor buys a particular “tranche” each of which presents a unique risk level.

X. GDP stands for Gross Domestic Product which expresses the economic output of a given nation. It measures newly produced goods and newly delivered services.

Y. IRR stands for Internal Rate of Return. It represents the percentage return on an investment taking into account all uneven cash flows.

Z. VUL stands for Variable Universal Life (insurance). A VUL policy provides for flexible premiums and a death benefit the amount of which will ultimately depend on the performance of the separate account.

CFP ALPHABET SOUP KEY

1. AOC	<u>H</u>
2. BPS	<u>N</u>
3. CMO	<u>W</u>
4. Reg D	<u>U</u>
5. EFC	<u>M</u>
6. FOMC	<u>G</u>
7. GDP	<u>X</u>
8. HO-15	<u>C</u>
9. IRR	<u>Y</u>
10. JTWROS	<u>E</u>
11. K-1	<u>F</u>
12. LLC	<u>V</u>
13. MAGI	<u>B</u>
14. NAV	<u>J</u>
15. OASDI	<u>D</u>
16. PV	<u>S</u>
17. QBI	<u>Q</u>
18. RSU	<u>I</u>
19. SEP	<u>R</u>
20. TIC	<u>P</u>
21. UIT	<u>A</u>
22. VUL	<u>Z</u>
23. W-2	<u>T</u>

24. XD Q

25. YRT K

26. Z tranche L