

A

ABI

Association of British Insurers, trade body through which insurance companies can air views on matters of common concern.

Accrual Rate

The rate at which your pension benefits build up as pensionable service is completed in a Final Salary Scheme.

Actuary

Someone qualified to consider financial issues, particularly ones involving probabilities such as life expectancy.

AER

(Annual Equivalent Rate) The interest paid from current, deposit or savings accounts. AIFA

Association of Independent Financial Advisers, industry trade body for financial advisers who are not tied agents.

AITC

Association of Investment Trust Companies, the industry trade body of investment trust companies.

Analyst

A person who studies a particular market or industry sector and gives a generic opinion as to the future value of a company's shares.

Annual volatility

A measure used to assess the risk of a portfolio.

Annuity

This is the contract you purchase from an insurance company using a lump sum of money (e.g. the proceeds of your pension fund) to guarantee you an annual income for a period of time (e.g. for ten years).

APR

(Annual Percentage Rate) The percentage you are charged over a year on the outstanding balance when you borrow money or make a purchase on credit.

Assets

Anything of value can be referred to as an asset, such as your home, jewellery or antiques. Within investments, assets are another word for investments in a unit trust portfolio.

AUTIF

The Association of Unit Trusts and Investment Funds, the industry trade body of unit trust and investment trust management companies.

AVCs (Annual Voluntary Contributions)

Extra payments you can make in addition to your main occupational pension scheme contributions to boost your retirement benefits. AVCs can be paid either to your employer's scheme or to a separate arrangement. See also FSAVCs

B

Base rate

The interest set by the Bank of England on which other banks base their rates.

Basic Rate Tax

The income tax paid on taxable income above a certain figure, currently 20%.

Basic State Pension

The single person's flat rate State pension paid when you reach state pension age (60 for women, 65 for men, although set to increase to 65 for women by 2020) if you have paid sufficient National Insurance contributions during your working life.

Bid-offer spread

The difference between the prices at which you buy units and sell them back.

Bid price

The price at which you sell units in a unit trust back to the investment manager.

Bonus

An extra payment that with-profits policyholders may have added to their contract depending on the profits the company makes in any one year, or over a period of years.

C

Capital

A lump sum of money.

Capital Gains Tax

The tax payable on profit made on the sale of assets or property other than your home.

Capital growth

An increase in the value of shares or other assets in a fund.

Capital and Interest Mortgage

A mortgage product where the payment you make each month covers the capital and interest on your loan.

Carry Back

Facility for members of personal pension schemes to have their contribution, or part of it, treated as being paid in the preceding tax year.

Carry Forward

The facility for members of personal pension schemes to carry forward any unused tax relief from any of the six years prior to the year in which the contribution was to be paid. Carry forward of unused relief was abolished in April 2001.

Cat Standards

Stands for (reasonable) Charges, (easy) Access and (fair) Terms and is a mark awarded by the Government to mortgages which meet these standards.

Commission

The means by which financial advisers or salespeople are paid by an insurance company for placing business with them.

Contracting in/out

The process by which you can elect to stay in or opt out of the State Second Pension.

Corporate bond

A form of investment offered by a corporation with the purpose of raising capital, in which the lump sum is repaid with interest at maturity. Corporate bonds can be bought and sold on the stock market.

Corporation tax

Applies only to limited liability companies and is chargeable on the company's profits.

Critical illness insurance

Pays a lump sum if you are found to suffer from one of a range of designated illnesses (normally including cancer, heart attack, and stroke among others). When a condition requires you to stop working for some time, worries are eased. So, normal practice is to have enough insurance to cover the mortgage, plus provide a year or two's income if your savings or other insurance will not provide. The policy usually pays out after surviving 28 days after diagnosis.

D

Death after Retirement Benefits

The pension and lump sum paid to the deceased member's spouse and/or other dependants where death occurs after retirement or after the member's normal retirement date if s/he is retiring late.

Death in Service Benefits

The pension and lump sum paid to the deceased member's spouse and/or other dependants where death occurs while still working for his/her employer, before his/her normal retirement date.

Debit card

Operates like a credit card except that the normal amount is deducted directly from your bank account so that no debt is accrued.

Deed of Covenant

An agreement in a deed to transfer income from one person to another in a tax efficient way.

Defined Benefit Scheme

Also known as a Final Salary Scheme. This is the traditional form of company or occupational pension where your pension is calculated as a proportion of your salary in the last few years of work with the proportion depending upon how many years you have been in your company scheme.

Defined Contribution Scheme

Also known as a Money Purchase Scheme. A scheme where the amount of a member's retirement benefits depends on the contributions paid into the scheme in respect of the member. The rate of the contributions is decided by the employer.

Depolarisation

The new depolarisation rules are aimed at increasing customer choice and making it easier for people to understand the services and scope of advice available to them, along with the likely costs of that advice.

Now, financial advisers can offer advice:

Across the whole market (IFAs)

From a limited number of providers (often referred to as multi-tie)

From a single provider (often referred to as single-tie)

Distribution

Payments made to investors of income generated by an investment fund.

Dividend

The distribution to shareholders of a company's profits in proportion to the number of shares held.

E

EMU

(European Monetary Union) The process by which the national currencies of the European Union are being replaced by the Euro.

Endowment Policy

A life insurance and savings policy which pays a specified amount of money at the end of an agreed term or on the death of the life assured. Often linked to a mortgage. The most common form of mortgage-linked endowments does not guarantee to return the mortgage amount on maturity.

Equities

The ordinary shares of a company.

ERM

(Exchange Rate Mechanism) An agreement by which most EU countries maintain the exchange rates between their currencies within certain limits.

EURO

The currency adopted by some European countries in place of their national currencies.

F

Final Salary Scheme

Also known as Defined Benefit Scheme. This is the traditional form of company or occupational pension where your pension at retirement is calculated as a proportion of your salary in the last few years of work, with the proportion depending upon how many years you have been in your company scheme.

Fiscal Policy

Influencing an economy through taxation.

Fixed Rate Mortgage

A mortgage product where you can vary the amount you pay each month, reduce the term by making additional one off payments or increased regular monthly payments and take breaks from your monthly payments.

Flexible Mortgage

A mortgage product where you can vary the amount you pay each month, reduce the term by making additional one off payments or increased regular monthly payments and take breaks from your monthly payments.

Flexible Pension Plan

A pension product where you can vary the amount you pay each month and take breaks from your monthly payments.

FOOTSIE (FTSE 100)

The popular name for the Financial Times Stock Exchange 100, the main UK share index which represents the prices of the top 100 shares in public limited companies.

FSA

The Financial Services Authority, the main regulatory body of the financial services industry.

FSAVCs

(Free Standing Additional Voluntary Contributions) Extra payments you can make into an individual plan, which runs alongside your company pension scheme, to top up your pension fund. The plan is independent of your employer's main pension scheme.

Fund

General term for an investment vehicle which pools the money of investors and invests it according to a defined set of investment objectives.

Fund Manager

A professional who takes decisions on what to buy and sell on behalf of a fund's investors.

Fundamentals

The underlying economic factors such as industry output, wages, cost of materials and fluctuations in currency which affect a market, country or sector.

FURBS

(Funded Unapproved Retirement Benefits Schemes) This is an occupational pension scheme that is not designed to be approved. This type of scheme saves up assets to pay members' benefits, unlike an unfunded scheme. Most FURBS are top-up pension schemes.

Futures

A contract to buy or sell a fixed amount of currencies, shares or commodities at a fixed rate in the future at a fixed price.

GHI

Gilt - (Gilt Edged Security)

A fixed-interest bond or security issued by the British Government.

GPP - (Group Personal Pension)

An arrangement made for employees of a particular employer to participate in a personal pension scheme on a group basis.

H

Hedging - A strategy designed to offset investment risk.

I**IDD - (Initial Disclosure Document)**

This will explain the type of service the adviser is allowed to give and the range of products on offer. This will enable consumers to decide whether the services offered are appropriate to them. It is industry jargon for the Key Facts about our Services document.

IFA - (Independent Financial Adviser)

A professional financial expert who must by law give impartial "best advice" on financial companies, markets and products. IFAs are a type of financial advisers who are able to select from all the products available in the marketplace. IFAs are bound to the Financial Services Authority rules, which oblige them to provide advice most suited to your personal requirements. In addition, when making recommendations they have to provide written reasons why they think that it is right for you - again to make sure that you are fully informed before committing yourself to anything. An advisor is not independent if they do not offer a fee only option.

IMRO - Investment Management Regulatory Organisation

The body that regulates the management of unit trusts. Now taken over by the FSA.

Income Drawdown

Facility by which you can draw an income from your pension fund while keeping the rest fully invested until the age of 75 at the latest.

Income Tax

Tax payable if you have income above the minimum level taxable in the UK.

Index

The means of measuring movement of statistics over a period of time used as a benchmark by unit trust managers.

Index-linked

Payments protected against the effects of inflation by increasing in line with the changes in the index of retail prices.

Inflation

The amount in percentage terms by which prices rise or fall year on year.

Inheritance Tax

Tax payable after you die on the value of your assets in excess of a certain threshold value although gifts between husband and wife are exempt. It is also chargeable in certain circumstances while you are still alive.

Initial Charge

A charge levied by your investment manager to cover administration and sales commission when you invest in a fund.

Interest-only Mortgage

A mortgage product where you only make a monthly payment of interest and do not repay any capital during the term of the loan. At the end of the term you have to repay the capital borrowed in full. Customers usually rely on a savings plan or other monies to pay off the capital at the end of the mortgage term.

Investment Trust

A company, quoted on the Stock Exchange which invests in other companies' shares.

ISA (Individual Savings Account)

Tax-efficient savings plans which can hold cash or investments, or a combination of the two, which were introduced in 1999 to replace TESSAs and PEPs.

JKL

Joint life

Joint life plans cover two (or more) people, usually a husband and wife. Benefits can be paid following the first death, or following the death of both.

K

Keyman insurance

This provides cover, in the short term, against the loss of profits a company is likely to suffer following the death of a key employee.

Key Facts Document

Advisers must now provide customers with two 'keyfacts' documents, explaining their status, the services they offer and a menu of their charges. This will enable consumers to properly understand the value and cost of the adviser's proposition, and to shop around for the best type of advice for them. The menu applies solely to investment business. Mortgage and General Insurance advisers do not use Menus

L

Liability

A debt, or amount of money, owed to others.

Listed company

A company whose shares are quoted on a recognised stock market.

MNO

Managed exit

The point at which management and other investors enjoy a return on their investment, by selling the business either on the stock market, to a competitor, or to another institution such as a VCT. A Managed exit will be initiated according to a careful strategic plan which is often compiled with professional advice.

Management Accounts

Accounts which are prepared for use when managing the business.

Market Capitalisation

The value of a company measured by the total stock market price of its shares, calculated by multiplying the number of shares by the current market price of a share.

Micropal Star Ratings

Micropal is an independent Mutual Fund analyst which monitors all the UK's unit trust and OEICs and awards stars on a scale of 0-5, with the highest scores being awarded to the best performing funds.

Monetary Policy

Influencing an economy through control of the money supply.

Money Purchase Scheme

Also known as Defined Contribution Scheme. A scheme where the amount of a member's retirement benefits depends on the contributions paid into the scheme in respect of the member. The rate of the contributions is decided by the employer.

Multi-tied adviser

The multi-tied adviser will offer a choice of products from a limited range of companies they have selected. These advisers must also disclose their association with the providers they work with.

Mutual company

A company which has no shareholders but is owned instead by its with-profits policyholders.

Mutual Fund

An open-ended fund operated by an investment company which raises money from shareholders and invests in a group of assets in accordance with a stated set of objectives. Shares are issued and redeemed on demand.

N**NASDAQ**

Index of the leading technology stocks in the USA.

National Insurance

Payments made out of earnings by employees, employers and the self-employed to the Government that entitle you to a state pension and other benefits.

National Insurance Rebate

The amount by which a person's National Insurance Contributions can be redirected into an Appropriate Personal Pension if contracted out of the State Second Pension (S2P).

Negative Equity

This is when the market value of your house is less than the amount outstanding on your mortgage.

Net Yield

The return on an investment after tax has been deducted.

O**Occupational Pension Scheme**

A legal contract set up by an employer to provide pensions and/or other benefits for one or more employees on retirement, death or leaving pensionable service.

OEIC (Open Ended Investment Company)

Managed funds which hold a portfolio of investments which you can buy into. They issue shares instead of units and normally quote a single price.

Offer Price

The price at which you buy units from a unit trust manager.

Offshore Funds

Funds based outside the UK.

OMO - (Open Market Option)

Your right at retirement to buy an annuity from a provider other than the one who has administered your pension fund.

OPAS - The Occupational Pensions Advisory Service.

This organisation is now called TPAS, which stands for The Pensions Advisory Service, a voluntary organisation which advises on problems with any type of pension scheme other than state schemes.

OPRA - The Occupational Pensions Regulatory Authority.

In April 2005 OPRA were taken over by The Pensions Regulator. A body with wide ranging powers to regulate work based pension schemes in the UK.

Option

In investment terms, a contract giving the right to buy or sell commodities, currencies or shares at a fixed date in the future at a fixed price.

PQR

PAYE - (Pay As You Earn)

Where income tax and National Insurance contributions are collected from your salary, before it is paid to you, by your employer and passed to the Inland Revenue.

Pension Forecast

A service provided by the Department of Work and Pensions which tells you what your state pension is worth.

Pensions Ombudsman

An independent arbitrator for pension disputes with statutory power to enforce his or her decisions.

Personal Pension Scheme

A pension scheme for those who are self-employed, or, if employed, are not members of an occupational scheme and so make their own pension provision.

Phased Retirement

The facility to use small amounts of your pension fund to buy annuities as and when you need income, rather than buying one annuity at retirement with your whole pension fund.

PHI - (Permanent Health Insurance)

Insurance that pays a level of income in the event of long term sickness or disability

PLC - (Public Limited Company)

Any company with a share capital of at least a statutory minimum.

PMI - (Private Medical Insurance)

Insurance which will pay for the cost of medical treatment in accordance with the policy cover.

Portfolio

A collection of shares owned by an investor.

Price/Earnings Ratio - Calculated by dividing the market price of a company's ordinary shares by its earnings-per-share figure as an indicator of the company's performance potential.

Q

Qualifying (life policy)

A type of insurance policy that can have tax benefits.

Quartile

Most UK funds are grouped into sectors and each sector is divided into four quartiles with the best performing funds being in the top quartile.

R

Return

The amount by which the value of your investment increases.

Rights Issue

New shares sold by a company to raise capital.

Risk

Refers to the fact that the value of your savings and investments can fall as well as rise.

RPI - Retail Price Index

The official measure of inflation calculated by weighting the costs of goods and services to approximate a typical family spending pattern.

STUV

Scrip Issue

The issue of new share certificates to existing shareholders to reflect an accumulation of profits on a company's balance sheet.

Securities

The general name for stocks and shares.

SERPS (State Earnings Related Pension Scheme)

A state pension in addition to the basic state pension based on earnings. Replaced by the State Second Pension (S2P) on 6th April 2002.

Shares

A stake in a company which entitles you to vote at annual meetings and benefit from the company's profits in the form of a dividend.

Single-tie Adviser

These advisers can only sell products of a single provider and must make a full disclosure of their link to the provider. The same advisers will also be allowed to sell another company's products to fill any gaps in the range of products offered by their employer.

Small Caps

Another name for small companies.

SOFA

SOFA has now merged with the LIA now to become the PFS (The Personal Finance Society).

SSAS (Small Self-Administered Scheme)

Small Self-Administered Scheme, an occupational scheme where the members are trustees and are directly responsible for administering the fund and paying out the benefits. Some funds are invested in assets other than insurance premiums.

Stakeholder pension

Low cost pension schemes introduced by the government in 2001 to encourage people to make provision for their financial future. They are aimed at those who may not have been able to afford a personal pension and were not eligible for an occupational or group scheme.

Stock market

The marketplace for the sale and purchase of shares, government bonds and other securities.

Switching

Moving an investment out of one fund and into another.

T

Term Assurance

A life assurance contract with a fixed term and a sum assured which is paid out only if the life assured dies within the term specified.

TESSA

Tax-exempt special savings accounts replaced by ISAs in 1999. You can no longer invest in a new TESSA but you can transfer your existing TESSA into an ISA.

Tied Agent

Financial advisers who have an agreement with one particular company to recommend its products. They can range from self-employed individuals to banks and building societies and can give you advice on your financial circumstances but they cannot survey the whole market for you.

Total Return

The combination of capital growth and reinvested income at the end of any given period.

Transfer Value

The amount of money which is available to be transferred to another pension or investment arrangement.

U**UCITS (Undertaking for Collective Investments in Transferable Securities)**

A Ucits fund is theoretically one that is authorised for sale in any of the EU member states. However, many EU countries also have their own requirements which must be fulfilled if a fund is to be offered for sale there.

Unit Linked Policy

An insurance policy in which the benefits depend on the performance of units in a fund invested in shares, bonds and property.

Unit Trust

An investment contract which invests in a variety of different stocks and shares and is divided into units which are issued to its members instead of shares.

Variable Rate Mortgage

A mortgage product where the amount of the monthly payment goes up or down in accordance with variations in the interest rate, based on the Bank of England rate.

Venture Capital Trusts (VCT's)

VCT's were devised in the 1993 budget as a way for new and unquoted companies to obtain money from investors. VCT's are essentially investment trusts. Like other investment trusts their shares are often traded in the stock market. Investors receive tax relief at 30% on the money they put in. Any dividends or capital gains will also be free of tax

VAT (Value Added Tax)

A form of indirect taxation levied on goods and services.

Volatility

The degree by which share prices in a particular market or sector go up or down.

WXYZ

W

Whole Life Policy

A life insurance policy which pays a specified amount on the death of the life assured.

Winding Up

The legal termination of a pension scheme.

With Profits Policy

A policy which usually has annual bonuses added to the sum insured. On death or maturity a terminal bonus may also be applied to the fund value.

Working Capital

The amount of money tied up in the day to day operations of the business.

Work-out solutions

An informal reorganisation of the business and settlement of its affairs outside of formal insolvency proceedings.

X

XD (Ex-Dividend)

The interval between the announcement and payment of the next dividend or, in the case of a unit trust, the next income distribution.

Y

Yield

The annual dividend or income from an investment.

Z

Zero Rated

Goods or services that are taxable for VAT but with a tax rate of zero.