Glossary of Financial Services

Terms & Jargon

August 2017

Glossary of general terms and jargon

Accountant
A professional who maintains accounts for businesses and individuals. Businesses use accountants for services such as maintaining financial records, tax affairs and payroll services. Individuals sometimes use accountants for tax returns.

Additional Voluntary Contributions (AVCs)
When you top-up an occupational pension, by making extra contributions into a scheme that's run by your employer, you make an 'additional voluntary contribution'.

Adviser
A professional, who is qualified to give you advice. Among others, this could be an independent financial adviser (IFA), a whole-of-market mortgage adviser, a solicitor or an accountant.

Advocacy
Legal representation in a hearing, usually carried out by a barrister or solicitor on your behalf.

Annual allowance
This is the maximum amount of money you can put into your pension funds in a given tax year, and still claim tax relief.

Annual statement
A statement from your financial services product provider sent to you once a year, showing how much you've paid, what your plan is worth (and if it's in relation to a loan, what you still owe).

Annuity
At retirement – but before you reach age 75 – you should buy an annuity with your pension fund. It's a payment that's usually paid monthly, which you'll receive as a guaranteed regular income during your retirement.

Approval in principle
This is the certificate that some lenders issue to show how much they'd be prepared to lend you. It's not a guarantee, but it can be helpful when you're looking at property to purchase.

APR
Annual Percentage Rate. The figure next to this abbreviation shows you the total cost of taking out a loan, as a percentage, taking into account the term, interest rate and other costs.

Asset allocation
Asset allocation is the process of putting your investment into a range of different investments such as equities, gilts, property and bonds. By diversifying the assets into which you invest, you can protect against any reduction in value of any one or more asset class. Asset allocation depends on your investment plans and attitude to risk.

Authorised firm
An authorised firm is one that has permission from the Financial Conduct Authority (FCA) to carry out regulated activities.

Banking law
This is the law that governs the banking sector, including money laundering legislation and accounting and financial services regulation.

Bankruptcy
If you can't pay your debts, you can declare yourself bankrupt – but you will lose control of your assets and income for a set period of time. The period of time is known as 'bankruptcy'.

Barrister
A barrister is a member of the Bar Council who is expert in presenting legal cases in court.

Basic rate taxpayers
You are a basic rate taxpayer if you are earning below the higher tax rate threshold and are paying 20% income tax for the tax year.

Basic state pension
This is the pension you receive from the government as a result of paying National Insurance (NI) contributions throughout your working life.

Beneficiary
A beneficiary is a person named in a will or under a trust as entitled to receive a bequest or benefit.

Bonds
A bond is a type of security held on a debt or a single premium life assurance investment bond. Bonds are sold to investors by companies.

Buildings insurance
These policies pay the cost of repairing or rebuilding your home if it's damaged by unforeseen events. A mortgage lender will usually ask to see proof of adequate insurance to cover the re-building of the property and will inform you of how much cover you need.

Buy-to-let mortgage
This is a loan you take out to buy a property that you intend to let to tenants. Buy-to-let investors need to be aware that properties can fall in value as well as rise. You should always avoid borrowing more than a reasonable percentage of the overall value, and make sure that you budget for periods when you're not receiving rental income.

Capital gains tax (CGT)
If the value of assets that you own increase in value, then you may need to pay Capital Gains Tax (CGT). For example, selling shares for more than you paid for them could involve paying some CGT. You get an annual allowance for capital gains and only pay CGT on any gain over this amount.

Capped mortgage
A capped mortgage is one with a maximum limit on the interest rate you'll have to pay during a special deal period.

Capped Drawdown
Forerunner to **Flexible Access Drawdown** which provides the means to take retirement benefits on a flexible basis by drawing income from the retirement fund as alternative to buying an **Annuity.** Benefits are limited by Government Actuary Department's (GAD) limits and these limits cannot be exceeded in any tax year.

Cashback mortgage
This is a mortgage that comes with a cash sum at the beginning of the mortgage loan.

Chancery
Chancery is a division of the High Court that deals in the administration of wills, probate and the execution of trusts.

Charity law
This is the law that governs charities, including how they raise funds, choose projects and account for the money they collect.

Child Trust Fund
The Child Trust Fund (CTF) is a long-term savings and investment account for children. In December 2010, the Government decided to stop opening CTFs, but those which had already been set up by then are designed to make sure that your children have savings up until the age of 18.

Clinical negligence
If you receive unreasonably poor medical treatment, which potentially gives rise to a personal injury claim against the medical professional or institution responsible, then you have 'suffered from clinical negligence'.

Commercial litigation
This is the use (or threat) of court proceedings by one business against another in relation to a dispute.

Commercial property law
This is the law that governs any premises occupied for business use.

Commission
This is the payment that's made to a financial adviser for services that he or she provides, based on a percentage of the value of the investment or premiums paid. It's paid to the adviser by the product provider. If your adviser takes a commission, you may not need to pay any fees.

Common law
An area of law built upon principles taken from previous cases rather than created by statutes enacted by Parliament.

Contents insurance
Contents insurance covers the cost of replacing possessions lost or damaged due to unforeseen events, as detailed in the insurance policy.

Contract
A contract is a written or spoken agreement between two parties. For a contract to be in force there needs to be an offer, an acceptance, and a means of consideration (which means that something of value, either an object, a service or money, passes between the parties, and each party gives and receives consideration). Each party expects to carry out certain acts in return for the other party carrying out other acts.

Contracting out
When you opt to leave the State Second Pension (S2P) or State Earnings Related Pension Scheme (SERPS), this is known as contracting out. You'll receive a rebate on your National Insurance contributions, which can be invested in a pension fund.

Conveyancing
This is the process of transferring legal ownership of property from one person to another.

Conveyancing solicitors
A conveyancing solicitor is the one will help you to buy or sell a property and give advice during the conveyancing process.

Corporate bonds
These are Bonds that are issued by companies when they need to borrow money. As an investment, they often offer higher rates of return than banks and building societies but with a varying amount of risk depending on the financial security of the company issuing the bond.

CPI
The Consumer Price Index (CPI) is a measure of inflation used by the British Government for its UK inflation target. It measures changes in a 'basket' of goods and services purchased by households.

Credit scoring
This is the system used by banks and other loan companies to judge whether you're creditworthy when you apply to borrow money.

Critical illness cover
This is an insurance policy that you take out so that you can rely on having a lump sum paid if you're diagnosed with a specified critical illness.

Damages
This is the amount of compensation that's paid by a losing party to the winning party in a litigation case.

Debt
If you've borrowed money, then you are 'in debt', typically owing interest as well as the money initially borrowed.

Debt law
This is the area of law that governs the process of recovering debts from individuals

Defined benefit
In this type of pension scheme, members receive a set pension income on retirement – based on their final salary, how many years they've been working for the company. It's also known as a final salary scheme.

Defined contribution
In this type of pension scheme, the amount of money you will have in your retirement fund depends on the amount of money you put in, where the money was invested and how much it grows. It's also known as a money purchase scheme.

Direct Debits
These are payments that are made on a regular basis from your bank account on an agreed date. You arrange this with the company you're paying, by giving them your bank details. For example, phone bills and utility bills are often paid by Direct Debit.

Disbursements
These are expenses that are incurred by the solicitor or other professional adviser on your behalf. They can include things like search fees in home purchases, medical reports in personal injury cases, any court or professional fees, or even their travelling expenses.

Discounted mortgage
A discounted mortgage is one with a discounted variable rate of interest for a set period, after which the rate may increase.

Diversification
This is the process of spreading – or 'diversifying' – your investments over a range of assets, so that you reduce your exposure to risk. By diversifying your investment, if one type of investment falls in value, then the remaining ones may not fall at the same rate, or at all.

Dividends
These are payments that are made to shareholders by a company from any profits that the business has made.

Early repayment charges

These are charges that you may have to pay if you break off a mortgage deal – by paying it back early and/or moving it to another lender.

Employment law

This is the area of law that governs the relationships between employers and employees. It includes things like harassment and unfair dismissal.

Employment law solicitors

An employment law solicitor can give an opinion on an employee’s position, prepare an application for an employment tribunal and represent the employee in the tribunal. Companies may also use employment law solicitors to advise them on employment and staff issues and to represent the employer side in tribunals.

Equity

This is a term that’s used to describe a company’s issued stocks and shares. If you own shares in a company you own some of the company's equity. It can also be used to describe the amount, or value, of your home that you own. If you ‘have equity’ in a property, it means that you own a portion of it above the value of any debts secured on that property, such as a mortgage.

Equity release

Equity release is the process of using the value of your home to raise cash – releasing the equity. There are two main types of equity release scheme available: lifetime mortgage (sometimes known as equity release mortgages) and home reversion schemes. When the property is sold, the plan provider reclaims their loan and any interest due with the remainder going towards the plan owner or to their estate.

Estate Planning

For inheritance tax (IHT) purposes, an individual's estate is calculated as being his or her total assets less any liabilities at the time of their death. Proper estate planning could save your family hundreds of thousands of pounds, because IHT (sometimes called ‘death duty’) will be charged on what you leave behind, over the IHT threshold at time of death. Currently, IHT is due at 40% of the value of all the assets you leave behind on death above the IHT threshold.

Ethical investment

Ethical investments are opportunities offered by businesses or funds that aim to avoid companies involved in some kinds of activities, but instead favour those involved in other activities. For example, companies trading in armaments, cigarettes, animal research or alcohol are unlikely to be considered ‘ethical’ – but a company that is highly committed to recycling or human rights issues, may be considered to have an ethical bias. Ethical investments can also be known as ‘green investments’ or ‘socially responsible investments’.

European Union law

This is the body of law that’s enacted by the European Union.

Executor
An executor is a person, named in a will, who is charged with administering the deceased person's estate and distributing the assets to beneficiaries.

Family law
This is the area of law governing family relations, including matters concerning children, marriage, divorce and domestic violence.

Family law (divorce) solicitors
A family law solicitor tries to help you protect your rights on divorce and make sure you get the correct entitlement from a final divorce settlement. They're sometimes known simply as 'divorce solicitors'.

Fees
Fees are one of the ways you can pay your adviser for their advice and services. They're usually fixed and agreed before the financial or legal advice and service is provided.

Final salary schemes
A final salary pension scheme is another description of a defined benefit scheme.

Financial and investment services
These are the services, often offered by solicitors and independent financial advisers, relating to investment of a client's assets, such as following a divorce settlement or a grant of probate.

Financial Ombudsman Service
The Financial Ombudsman Service has been set up by law to help settle individual disputes between consumers and financial firms. It gives consumers a free, independent service to help resolve disputes, but you usually must have first taken your complaint to the financial firm yourself before the Ombudsman can step in.

Fixed interest security
This is another name for a 'bond'. The amount of interest you receive, when you invest in a fixed interest security, is stated at the time of purchase. These are usually regarded as a lower risk investment than stocks or shares.

Fixed rate
An interest rate that's fixed is one that doesn't move up or down for a set period of time.

Fixed rate mortgage
Some mortgage lenders will offer a period of time, normally 2 to 5 years, during which the interest rate is fixed. After this time, it will revert to the Standard Variable Mortgage Rate (often referred to as SVR). Fixed rate mortgages can make budgeting for mortgage payments easier for borrowers in the first years.

Flexible Access Drawdown (FAD)

Replaced **Capped Drawdown** as the main alternative to taking an **Annuity** at retirement. Allows the policyholder to take a proportion of benefits tax free and arrange flexible income payments which are taken from the fund. Once set up, access is not restricted but care needs to be taken with personal tax planning and there is therefore a risk that the policyholder could run out of money before they die.

Fraud

This is a term that's used to describe various dishonest acts included in the Theft Acts of 1968 and 1978.

Free-Standing Additional Voluntary Contributions (FSAVCs)

This is a pension top-up policy for an occupational pension scheme, but it's run alongside your employer's pension scheme - usually by a pension company.

FCA

The Financial Conduct Authority (the FCA) is the UK's financial services regulator.

Gilts

These may also be called gilt-edged or Treasury bonds. They're bonds that are issued by the UK government. They're regarded as being very low-risk, secure investments because it's the government that promises to pay you back.

Green Investments

This is another name for 'ethical investments', or 'socially responsible investments'.

Group Personal Pension

If you work for a company, you may have a Group Personal Pension. It's the name given to a group of personal pension plans offered by employers to employees.

Hedge fund

Hedge funds are a high risk investment: they comprise a complicated set of strategies that aims to make attractive returns on the stock markets.

Higher rate taxpayer

You are a higher rate tax payer if you are earning more than the higher tax rate threshold and are paying 40% income tax for the tax year.

Home reversion schemes

With a home reversion scheme, homeowners sell their home at a substantial discount of its value. They give up ownership and the right to any future increase in the property value, but they can continue to live in the property. These plans are available for those aged at least 70 and are for people who have nowhere else to go to obtain money.

Human rights law
This body of law was created by the Human Rights Act 1998. It gives UK citizens the fundamental rights and freedoms contained in the European Convention on Human Rights.

Income multiples
This is the factor by which your earnings are multiplied to find out how much you can borrow for a mortgage.

Income protection
This is an insurance policy that pays you a monthly income if you're unable to work due to illness or injury, until you are able to return to work, or you retire, whichever is the sooner.

Income tax
This is the tax paid on your income. Generally, all income is taxable. The exceptions are for income falling within personal allowances and income that's generated from certain tax-efficient investments such as ISAs.

Independent financial adviser
Independent financial advisers (IFAs) are professionals who give financial advice about products and services across the whole market. They act on your behalf, and may charge a fee or be paid by commission.

Individual Savings Account (ISA)
There are two types of Individual Savings Account (ISA): Cash ISAs, and Stocks and Shares ISAs. Each tax year, you can put money into both types up to the annual limits. ISAs aren't an investment in their own right, they're a tax-free 'wrapper' in which you can shelter investments.

Inheritance tax (IHT)
Inheritance tax (IHT) is charged on an estate after a person's death. It's currently charged at 40% on amounts above the IHT threshold, which can change every year. A person's estate includes the total of everything owned, less any liabilities at the time of their death. If this amount is less than the threshold, no IHT is payable.

Injunction
An injunction is an order of the court that requires an individual or organisation to do or not do a specified act. For example, when a newspaper is 'given an injunction', they may be told not to publish a specific article or picture.

Insolvency
Insolvency is usually defined as a financial state in which a company can no longer pay its bills or other obligations on time. It happens when liabilities – or debts – are greater than assets and cash flow.

Insurance Premium Tax
Insurance premium tax (IPT) is a tax levied by the government on general insurance premiums. Most of the insurance premiums paid by UK consumers will include this tax – such as the insurance for your car, buildings and contents or private medical care. Some kinds of premiums like travel insurance are

taxed at a higher rate. However, most kinds of long-term insurance like life insurance or permanent health insurance are exempt from this tax.

Intellectual property

Anything that's created by the intellect – with a commercial value, such as music, literary or artistic works or even computer code – is intellectual property.

Interest

When you give your money to a bank, to look after, you may receive an amount of money on top in return. That percentage is known as interest. You also have to pay interest on loans or mortgages when you borrow money.

Interest-only mortgage

With an interest-only mortgage, you only pay the interest charges on the loan each month. This means that you're not reducing the loan amount (or capital) itself, which will need to be repaid in some other way. With a repayment mortgage, the loan is reduced to zero at the end of the term.

Joint life

A 'joint life' policy is one that's taken out by two or more people. Joint life policies can be useful for protecting a family in the event of either or both parents dying.

Junior individual savings accounts (JISA)

Junior individual savings accounts (JISA) offer a choice of thousands of funds that can be held tax efficiently. Parents of children under 16 that do not have a Child Trust Fund can open a JISA in the child's name.

Key facts document

All financial advisers must provide customers with at least two 'Key facts' documents: one explaining their status (whether they are tied, multi-tied or independent) and one explaining the services they offer and a menu of their charges. This helps you understand the value and cost of the adviser's advice and service. Comparing these documents is a good way to shop around.

Key features document / Key Facts Documents

A 'Key features' or 'Key Facts' document is one that all firms authorised and regulated by the FCA must give you to explain their services, or products, and details about anything that you're interested in buying.

Landlord and tenant law

This is the area of law that governs the relationship between both landlords and tenants of residential and business properties.

Landlord and tenant law (property) solicitors

These solicitors are experts in landlord and tenant law. They can help individuals to draft tenancy agreements, explain obligations to tenants and help with eviction proceedings if this becomes necessary.

Legal aid (public funding)

This is a type of legal advice and representation for people on low incomes and may be means tested (particularly in Scotland). You don't have to pay at the outset of the case, but it can be deducted out of any compensation. Legal aid applies slightly differently in Scotland than in England and Wales, and is not available for all types of law.

Libel

Libel is the act of publishing something about somebody that is not true and that causes them damage.

Lifetime allowance

This is the maximum amount of money that you can accumulate as pension savings throughout your lifetime and still benefit from tax relief. If the amount you save exceeds the lifetime allowance, then you will have to pay tax on these savings.

Lifetime annuity

A lifetime annuity will give you a regular income for the rest of your life. You buy an annuity with the cash sum that's built up in your pension fund, so that you can have a regular income during retirement. There are different types of annuities to suit your needs and circumstances.

Lifetime ISA (LISA)

New Investment account targeting people aged between 18 & 40 offering government incentives via a 25% bonus to qualifying savings made via the scheme – the bonus stops when the saver reaches 50. The current limit is £4 000 per annum but transfers from Help to Buy ISAs and general ISAs can be accepted. The intention is that the plan can be used to fund part of the savers first property (subject to terms and conditions) or 'rolled on' until age 60 when it can be drawn tax free to provide retirement benefits.

Lifetime mortgages

These are also known as 'equity release mortgages'. They're products that release a share of the equity in your property and put a mortgage into place, to repay the amount of money that's been released. A lifetime mortgage is different from a traditional mortgage: the interest charged is 'rolled-up', so that borrowers never have to make monthly mortgage repayments. The minimum age of the youngest borrower is usually 55. The older the borrower, the higher the portion of the equity of the home may be borrowed. This tends to be in the region of 15% of the property value at age 55, rising to a maximum of 55% at age 85.

Litigation

Litigation is the use or threat of court proceedings.

Loan-to-value (LTV)

This is the percentage of mortgage money you want to borrow compared to the cost of a property. If the LTV exceeds a stated amount, then some mortgage lenders will charge a higher rate of interest or impose some other penalty to accept the higher risk.

Loans

A bank loan is a set amount of money that a company agrees to lend you for a set period of time. Payments and interest rates are agreed at the time of the loan.

Mediation

Mediation is the process that parties enter into in an attempt to resolve a dispute without court proceedings. It's usually undertaken in the presence of a 'mediator' – someone with a neutral opinion who can voice the issues of both parties.

Mental health law

This is the area of law that governs the treatment and classification of mental patients under the Mental Health Act 1983.

Money laundering

The government has introduced tough money laundering laws in a bid to combat international crime and terrorism. This means that solicitors and other professionals need to check that you are who you say you are when you first instruct them. They may also ask for proof of identity if you have not instructed them for some time. Usually, identity is provided with a form of photographic document – such as your passport.

Money purchase pension

Occupational pensions, personal, group personal, stakeholder, Free Standing Additional Voluntary Contributions (FSAVCs) and Additional Voluntary Contributions (AVCs) can be called money purchase pensions. You can choose where your contributions are invested. The size of your fund depends on your contributions, over what period you invest them, and how well your investments grow.

Mortgage

A loan to buy a property, which is then 'secured' on the property. This means that the lender may eventually have the right to take over the property if you do not keep up with the terms of the mortgage.

Mortgage broker

A mortgage broker can recommend a mortgage for you or they can give you information that helps you make your own choice. Mortgage brokers can be independent, or have a restricted range of mortgages available to them. Remember to ask a mortgage broker what his or her status is.

Mortgage protection insurance

Accident, sickness and sometimes unemployment insurance (or payment protection insurance) is a policy that's used to help pay for your mortgage if your income is reduced due to certain circumstances.

Multi-tied financial advisers

A multi-tied financial adviser can offer you a choice of products from a limited range of financial companies.

National Insurance contributions

National Insurance (NI) contributions are an amount of money that's paid to the Government a percentage of your income if you are aged over 16 but under the pension age (currently 60 for women, 65 for men) and you earn more than the minimum threshold. They go towards providing for state pensions, as well as other state-provided benefits. If you are an employee, NI is deducted from your pay before it is paid to you.

Neighbour disputes

Legal disputes between neighbours, often related to noise, threats of violence or obstructed access to property.

Non-taxpayers

If you don't pay tax because your income is below the personal allowance threshold, then you can choose to receive gross interest (interest without tax deducted). Remember, the interest from investments could take you over the threshold. You can also reclaim any overpaid tax provided you make your claim within set time limits, usually around six years. If you want to receive your interest gross, you should complete Tax Form R85, which you can pick up from your bank, building society or savings provider, or find at www.hmrc.gov.uk/taxback/forms.htm

Payment protection insurance

This type of insurance policy pays a regular pre-agreed amount for a stated time if you can't work for specified reasons.

Pensions law

An area of law governing the payment and the protection of pensions.

Personal allowance

A personal allowance is the amount of income that you can earn each year before you start paying tax.

Personal Equity Plans (PEPs)

Forerunner to ISA, From April 2008, Personal Equity Plans automatically became Stocks and Shares ISAs (see the glossary definition of Individual Savings Account).

Personal injury law

An area of law that governs claims for compensation where one party has caused physical injury to another.

Personal injury solicitors

A personal injury solicitor will help you negotiate for personal injury compensation.

Personal pension

This is a pension policy that's taken out through a pension company, into which you pay contributions and will at retirement provide some or all of your pension income. These are invested in funds, which you can choose according to your attitude to risk and plans for the future. A personal pension is set up on a money purchase (defined contribution) basis.

Planning law

This area of law governs the processes involved in getting planning permission for the erection or change of use of buildings.

Premium

This is the name given to the regular amount you must pay for an insurance policy. Providers sometimes offer annual premiums, but most commonly premiums are paid monthly, although some companies charge interest on these arrangements and it is worth checking how much extra you may have to pay.

Price to earnings ratio (P/E)

The performance of companies is measured by their Price to Earnings (P/E) ratio. The price is the current share price, and the earnings are the profit that the company earns in one financial year for each single share.

Private medical insurance

This is a type of insurance policy that pays for you to receive private medical treatment. It's also known as private health insurance.

Probate

Probate is the process of obtaining legal authority to deal with the affairs of someone who has died and getting the will certified so that the executors can carry out the wishes and instructions contained within it in order to wind up the estate.

Professional negligence

This area of law covers claims against any professional whose work has not met the standards that can reasonably be expected. Medical professionals, surveyors, architects, accountants, solicitors, financial advisers, builders, plumbers – these kinds of profession run the risk of professional negligence.

Property

Property is a type of asset. Property assets can be residential - such as your house – or commercial, such as offices and shops.

Protected rights pension

This is the part of your pension fund that has been built up due to redirection of national insurance contributions.

Qualifying years

Qualifying years are those tax years in which you've paid a certain amount of National Insurance contributions. A minimum number of qualifying years must be built up during your working life to qualify for the full basic state pension.

Repayment mortgage

This is a mortgage that pays off both the capital and the interest at the same time. Pay all the repayments and the mortgage will be fully repaid at the end of the term.

Risk

Some investments are riskier than others. For example, an investment in the stock market is riskier than money put into savings accounts – there's more chance of something going wrong and you losing money. Riskier investments tend to offer potentially higher returns as compensation for the risks involved.

RPI

The Retail Prices Index (RPI) measures the change in the cost of a basket of retail goods and services.

Self Invested Personal Pensions (SIPPs)

A Self Invested Personal Pension is a type of plan that allows you, or your appointed fund manager, to make choices from a wider range of investments than other personal pension schemes offer. With a SIPP you can invest in the shares of any company listed on a stock exchange.

Solicitor

A professional who provides legal advice and services to individuals and businesses on a wide range of issues, for example divorce, conveyancing, contract law and employment law.

Stakeholder Pension

This is a personal pension in its most simple form. A stakeholder pension will allow you to make a minimum investment of £20 per month and offer a range of funds in which to invest – and there must be no penalties for transferring away from the fund. Your employer may offer access to a stakeholder pension scheme.

Stamp duty

This is a tax that's levied on the transfer of certain kinds of assets: it's imposed by HMRC, who need to 'stamp' documents to complete the purchase of such assets. Home buyers must pay stamp duty on properties with a value that's above a set figure. Anyone buying shares also needs to pay stamp duty.

Standard variable rate mortgage

This is a loan that's arranged at the lender's normal mortgage rate without any discounts or deals.

Standing Order

Similar to Direct Debit, a standing order is a means of authorising your bank to make a single or regular payment to an individual either on a limited time basis or an ongoing basis. A Standing Order can only be set up and varied by the customer with their bank and so it is not suitable for arranging payments with firms that may vary, such as mortgage payments or life insurance premiums that increase with inflation.

State Pension
Your basic State Pension is based on your National Insurance contributions. You may also qualify for the additional State Second Pension if you are employed, based on your earnings and National Insurance contributions.

State Second Pension
The State Second Pension is an additional pension that's paid on top of your basic State Pension. It was called SERPS until 2002. Self-employed people are not entitled to a State Second Pension.

Stockbroker
A stockbroker is a professional who buys and sells stock (shares) on behalf of clients. Only registered stock brokers can buy or sell shares on the stock exchanges.

Stocks and Shares
Both terms mean the same thing: companies' stocks and shares that can be bought and sold. Owning a share in a company means owning a part of that company, or owning some of that company's stock.

Sub-Prime
If a mortgage borrower has a poor credit record, such as County Court Judgments (CCJs) or bankruptcy, they can find sometimes a loan from Sub-Prime lenders. However, borrowers can expect to pay interest rates that are higher the normal lending rate because lenders see them as being riskier.

Tax credits
Tax credits are payments made by the government. Usually, they're made to people on low incomes, to families with children, or to registered carers.

Tax Exempt Special Savings Account (TESSA)
Forerunner of cash ISA. From April 2008, TESSAs automatically became ISAs.

Tax-efficient investing
Tax-efficient investing is the process of investing in such a way as to minimise the amount of tax paid. This could mean using tax-efficient investments such as ISAs, or making contributions to your pension.

Taxation law
This area of law governs the payment and evasion of tax due to Her Majesty's Revenue & Customs.

Term
This is the length of the contract you make with your mortgage, policy or investment provider.

Term assurance
This is a policy that provides a guarantee to pay a specific amount of money, during a pre-agreed period of time, if you die. It's also known as Life Assurance.

Tied financial advisers
A tied financial adviser can only offer advice on the products of one provider.

Tracker mortgage
This is a mortgage that has a level of interest rate linked to a particular rate, set independently from the lender. The level of interest you'll pay will move up and down, as the rate moves up or down.

Travel insurance
This type of policy usually pays out if you unexpectedly should cancel your holiday; are taken ill while away; accidentally injure somebody or damage somebody else's possessions; or if you lose your own possessions. Different levels of cover are available to protect you whilst you travel, and costs can vary depending on where you travel to and how long you plan to be away – or you can choose to buy annual or multi-trip insurance.

Trusts law
This type of law governs the creation and maintenance of trusts, such as those used to protect family assets through the generations.

Unit trusts
These are 'open-ended' investments in which the underlying value of the assets is directly calculated by the total number of units issued multiplied by the unit price less the transaction or management fee charged and any other associated costs. There are many different unit trusts available, all investing in different assets.

Unsecured pension
An unsecured pension is a way of taking an income from your pension fund up to age 75, while leaving the rest of your fund invested. It does involve incurring some risk to the value of your pension fund. There are two types of unsecured pension – a short-term annuity and income withdrawal.

Valuation
This is an inspection, for the benefit of your lender, of the home you hope to buy. This is to reassure them they are not lending more than the property is worth and that the property is suitable security for the mortgage, but it won't tell you if the building is a good or bad buy. For your own peace of mind and to get an understanding of the physical condition of the property you are planning to take on, you may want to organise your own in-depth, structural survey, particularly on an older property.

Variable interest rate
These are interest rates, offered by banks and financial institutions on loans or deposits, that may change according to circumstances. For example, a movement in the interest base rate set by the Bank of England would usually be an influence.

Venture Capital Trust (VCT)
A venture capital trust is designed as a way for individual investors to gain access to venture capital investments via the capital markets. They aim to seek out potential venture capital investments in small unlisted firms to generate higher than average returns for their investors.

VCTs are tax-advantaged investments in the UK currently, often relieving investors of many of the tax implications surrounding dividends and capital gains, or offering lower taxation rates.

Welfare benefits law

Welfare benefits law governs the payment of welfare benefits to individuals.

Whole-of-life insurance

A whole-of-life insurance policy lasts throughout your life so that your dependants are guaranteed a pay-out should you die as long as the premiums are kept up.

Wills and probate Law

This is the area of law that governs the interpretation of wills and the distribution of the estate of people who have died.

Yield

Yield is a general term for the rate of income that comes from an investment, expressed as an annualised percentage and based on its current capital value.

Glossary of Specialist Investments Terms & Jargon

Absolute Return Fund
These funds aim to deliver positive returns in all market conditions with low volatility. The funds often uses derivatives to protect against falling markets.

Accumulation Share Class
Any income generated by the fund is automatically reinvested instead of being paid out, which increases the value of your units.

Active Management
Where a professional fund manager chooses the companies and amounts in which to invest, instead of simply buying the same companies in the same amount as a market index, such as the FTSE 100. The opposite of active management is passive management.

Alpha
Alpha is a word commonly used to describe a fund manager's skill. Alpha is the excess risk- adjusted return of a fund relative to the return of a benchmark index. The higher a fund managers Alpha, the better their performance is.

Annual Management Charge
The annual charge paid to a fund management company for managing the fund. It is calculated as a percentage of the value of the fund. The annual management charge is less than the Total Expense Ratio (TER) and Ongoing Charge Figure (OCF).

Beta
A word used to describe the measure of a fund's volatility in comparison to the market as a whole. A beta score above 1 means the fund is more volatile than the overall market, while a beta score below 1 means it is less volatile.

Benchmark Index
A standard against which the performance of a fund can be measured. The FTSE 100 is an example of a benchmark index.

Bid Price
The price paid by the fund manager to buy back your units when you choose to sell some or all of your holding in a fund. The current value of your holdings in a fund is based on the current bid price.

Bond
see fixed interest securities

Book Value
The total value of the company's assets that shareholders would theoretically receive if a company were liquidated and all creditors were paid.

Bottom-up
A management style where the manager prioritises individual stock selection over industry, sector or wider economic factors.

Call Option
An agreement that gives an investor the right, but not the obligation, to buy a company, bond, commodity, or other instrument at a specified price, within a specific period. In return for this right the seller, or option 'writer', receives a payment from the buyer. The value of a call rises when the underlying asset increases in price.

Callable Bond
A bond, which can be bought back by the issuer prior to its maturity date. The issuer will usually 'call' the bond if interest rates fall and they can re-issue the bond at a cheaper rate. The call feature is an advantage for the issuer and consequently investors will demand a higher yield as compensation to hold these bonds.

Clean Share Class
Where the only annual cost that comes out of a fund automatically is that charged by the fund manager for managing the assets. In the past, shares class costs also included those of the intermediary and platform. These charges are now made separately.

Contrarian
An investment style which goes against prevailing opinion. Contrarian investors often invest in out of favour sectors or companies, which have recently performed poorly.

Convertible Bond
A bond, issued by a company, that may be converted into shares in that company for a pre-stated price.

Corporate Bonds
When a company wants to borrow some money it can issue a bond to do so. This bond is called a corporate bond. People buying the bond lend money to the company in return for regular interest payments and the promise that the capital will be repaid on a specified later date.

Coupon
A coupon is a periodic payment an investor receives for holding a bond – in other words, the interest. The coupon 'rate' is the total coupons paid per year, divided by the face value of the bond. A bond with a high coupon rate, also known as high yield, will be less sensitive to changes in interest rates.

Active Share
Active share measures how much an equity portfolio's holdings differ from the benchmark index. A tracker fund which matches the index perfectly will have an active share of zero. Most actively managed funds will have an active share of between 50-90%. Research has shown that funds with an active share consistently below 60%, typically struggle to beat their benchmark index over a long period.

Covered Call
A strategy which involves buying shares in a company and simultaneously selling a call option for those shares. Selling the call option generates an income but means the fund will potentially miss out on some of the gains should the company’s shares increase in value.

Creation Price
The lowest price at which units can be bought from the fund manager; it is simply the cost of creating a unit.

Credit Rating
An assessment of the credit worthiness – or ability to pay interest on loans - of a borrower. Assessment is undertaken by a credit ratings agency such as Standard and Poor's, Fitch or Moody's.

Cumulative Return
The aggregate performance of a fund or company. For example, company X had a cumulative return of 20% over the past three years.

Cyclical
A word to describe an industry or company that is sensitive to the business cycle. Revenues are generally higher during times of economic prosperity, but lower during times of contraction or recession. The airline industry is one example of a cyclical industry.

The opposite of cyclical is defensive.

Defensive
A word to describe an industry or company that can outperform in difficult economic conditions. They will typically underperform cyclical stocks during periods of economic expansion. The utility industry is an example of a defensive sector. Defensive stocks typically have a Beta of less than 1.

Derivatives
A derivative is a contract between two or more parties, the value of which is determined by fluctuations in the underlying asset. The most common forms of derivatives are futures contracts and options, amongst others. Underlying assets may include company shares, bonds and currencies, to name a few.

Dilution Levy
An additional charge to investors, levied by fund managers, buying or selling units in a fund, in order to counter any potential effect on the value of the fund such sales or purchases may have. This additional charge is used as a means to protect existing investors in a fund and is usually only applied if there are large numbers of sales or purchases at one time.

Discrete Returns
The returns of a fund or company over several separate periods of time. For example company X returned 15% in 2013, 12% in 2012 and 5% in 2011.

Dividend Yield
Calculated by expressing a company's declared dividends per share as a percentage of the current share price.

Duration
Used when describing the average time to maturity of a bond measured in years. The longer the duration, the more sensitive the bond is to changes in interest rates.

Earnings per Share
The amount of profit attributable to each share, calculated by dividing net profit of a company by the number of ordinary shares in issue.

Equities
Also known as shares or stocks, equities represent a stake in the ownership of a company.

Exchange-Traded Fund (ETF)
An investment vehicle, the units of which are traded on a stock exchange. An ETF can hold a range of assets such as stocks or bonds. Most ETFs track an index, such as the FTSE All share or the S&P 500, so they are typically passive investments.

Fixed Interest Securities
These are more commonly known as "bonds" and are loans issued by companies or governments in order to raise money, in return for regular interest payments and the promise that the initial investment will be repaid on a specified date in the future. All bonds are essentially IOUs.

Fund
A financial portfolio which pools money from many individuals to buy a broad range of assets. Funds are designed to grow an investor's money, and in some cases, to provide them with a regular income.

Gilt
A bond issued by the British government. The US equivalent are called Treasuries.

Government Bonds
Bonds issued by governments. Typically these are considered safer than corporate bonds issued by companies in the same country e.g. gilts are issued by the UK government.

Growth Stocks

Growth stocks are characterised by fast growing revenues. These stocks typically have high P/E ratios and high price to book ratios.

Hedging

Hedging is used to reduce risks to a fund from adverse movements in interest rates, markets, currencies or share prices. Similar to hedging your bets.

High Yield

A bond issued by a company or government which carries a lower credit rating. These bonds pay a higher yield than other bonds, reflecting the higher risk of default.

Income Share Class

Pays out all of the fund's net income to the investor in cash. Income can be paid out biannually, quarterly, monthly or even triennially.

Note: Income can still be reinvested to buy more units in the fund. Typically, this is done where there is no accumulation share class available.

Index Fund

A passive fund aiming to mirror the performance of a benchmark index.

Index-Linked Bonds

Bonds which are linked to an inflation index. For example, UK government index-linked bonds are linked to the UK Retail Price Index(RPI). These bonds are typically used to protect investors from high inflation. Government and corporate bonds can both be index linked.

Initial Public Offering (IPO)

The first time a company sells shares to the public.

Information Ratio

A measurement (or ratio) of risk-adjusted returns. The information ratio is a special version of the Sharpe ratio in that the benchmark doesn't have to be the risk-free rate. The information ratio also attempts to measure the consistency of the fund manager's performance. A manager with a higher information ratio, is deemed to have consistently better performance.

Investment Grade Corporate Bonds

Corporate bonds carry a relatively low risk of default and have a high credit rating. As they are lower risk than high yield bonds they tend to have a lower yield.

Liquidity

The degree to which a security can be bought or sold without affecting its price. Liquidity is often low in emerging markets and for smaller companies.

Market Capitalisation
The market value of a company, determined by multiplying the number of shares by their current share price.

Money Market Investments
Forms of cash and near cash, such as bank deposits, certificates of deposit, fixed interest securities or floating rate notes, with a maturity date of under a year.

Net Asset Value (NAV)
Total assets of a fund or company minus all liabilities and prior charges. Net asset value per share is calculated by dividing this figure by the number of ordinary shares/units in issue.

Ongoing Charge Figure (OCF)

The majority of funds now refer to the OCF instead of the total expense ratio (TER), it includes the annual management charge and is very similar to the TER, but it does not include any performance fees or transaction costs.

Offer Price
The price at which the unit trusts are bought by investors. The offer price tends to be higher than the bid price, which is the price at which investors sell their units.

Open Ended Investment Company (OEIC)
OEICs, unlike unit trusts, are single priced so buyers and sellers of the fund pay the same price, although they may both have to pay a dilution levy. A dilution levy is only charged where a fund provider incurs additional costs and it is intended to protect existing investors in the fund.

Options
Legal agreements giving the holder the right, although not the obligation, to buy or sell the underlying asset at a specified expiration date, and at a price determined at the time of dealing. The price the seller receives for selling the option is called the 'option premium'. The option premium is more expensive the longer the contract lasts and the more volatile the underlying security. See call and put options.

Overweight
This term refers to when the holding of an individual stock, industrial sector, or country in a fund is greater than the proportionate share of its relevant benchmark index.

Passive Management
As opposed to active management, a passively managed fund will invest in a basket of securities and try to replicate a pre-determined benchmark index. Tracker funds are an example of a passively-managed fund.

Performance Attribution

How much of a fund’s performance can be attributed to specific factors such as stock selection or asset allocation.

Price to Book Ratio

This ratio is calculated by dividing the current share price by the company's book value per share. The price to book ratio is used as a measure of how expensive a company's share price is. A company with a price to book value of exactly 1 would theoretically be worth exactly the same as its share price if it was liquidated immediately (assuming its balance sheet was accurate).

Price to Earnings Ratio (P/E)

This is a valuation measure calculated by dividing the current share price by the last published earnings per share (net profit divided by the number of ordinary shares). The ‘P/E ratio’ gives investors a quick and easy way of seeing how a company is priced relative to its peers (with a higher P/E being more expensive), although it should not be relied upon by itself.

Property Authorised Investment Fund (PAIF)

Property Authorised Investment Funds (PAIFs) are a hybrid between an OEIC a REIT. They have improved tax advantages for ISA investors (no withholding tax is charged) and are able to invest in a wider range of property investments than other types of property fund.

Put Option

An agreement that gives the buyer of the put, the option to sell a security for a specified price within a specified time. The opposite of a call option. A holder of a put benefits when the value of a security declines.

Quartile

A fund's performance relative to its peers is often referred to in terms of quartiles. For example, a first quartile fund is one which its performance ranks it within the top 25% of all funds in that sector. First quintile (top 20%) and first decile (top 10%) are also used.

R Squared

A statistical measure between 0-100 that represents the percentage of a fund or company’s movements that can be explained by movements in a benchmark index. A fund with an R squared of 100 can be completely explained by movements in the index. You would expect index funds to have an R squared very close to 100. A low R squared (usually less than 70) means the fund doesn't act much like the index and you should ignore its beta.

Real Estate Investment Trust (REIT)

A real estate investment trust (REIT) is a listed company whose primary activity is property investment. REITs own many types of commercial real estate, for example, offices, warehouses, hotels, hospitals and shopping centres. Some REITs also engage in financing real estate. They can be very tax efficient as no corporation or capital gains tax is paid on the company profits made from property investments. However, dividends are treated as income and are taxed accordingly and withholding tax is charged on distributions, unless held within a tax-efficient investment, such as an ISA.

Secondary Offering
A secondary offering occurs when a public company sells shares to investors at any time other than for the first time (see IPO).

Security
Another word for stock, bond or company.

Sharpe Ratio
A ratio to measure risk-adjusted performance. The higher a portfolio's Sharpe ratio, the better its risk-adjusted performance has been. The Sharpe ratio is calculated by subtracting the risk-free rate of return (usually based on a 10-year government bond), from the rate of return for a fund and dividing the result by the standard deviation (volatility) of the portfolio returns. The Sharpe ratio helps to tell us whether a fund's returns are due to smart investment decisions or a result of excess risk.

Short Selling
Short sellers employ this tactic when they believe a security's price will decline. The seller borrows the security from another investor and then sells it in the open market. To close the position the short seller buys the security back in the open market at a later date before returning it to the original lender. They make money if the security has fallen in value and lose money if it has become more expensive.

Sorting Ratio
A modification of the Sharpe ratio which only takes account of downside volatility as opposed to all volatility. A large Sorting ratio indicates a lower probability of a large loss.

Spread
This is applicable to dual priced funds and is the difference between the price at which investors buy units (the offer price) and the price at which they can be sold (the bid price). The spread includes any initial charge on the fund as well as the costs of trading in underlying securities.

Standard Deviation
Measures the volatility of a fund's returns. Funds with high standard deviation exhibit relatively more volatility than those with low standard deviation.

Strategic Bond Funds
Strategic bonds funds can invest into any category of fixed interest bond e.g. high yield, corporate bonds, gilts etc. Strategic bond funds are therefore flexible and many utilise derivatives to protect against falling bond prices (often seen when interest rates rise).

Top-down
A management style whereby the manager takes into account the greater market and wider economic picture to enable them to allocate assets to sectors and regions, before selecting stocks.

Total Expense Ratio (TER)

The total annual cost of managing a fund, which is charged to an investor. The cost includes the annual management charge (AMC) and other fees such as legal costs, trading fees and operational expenses. In order to arrive at the TER, the total costs of the fund are divided by the fund's total assets producing a percentage amount which represents the TER. Unlike the OCF, the TER does include transaction costs and performance fees.

Total Return

The investment return consisting of both the capital appreciation and reinvested income.

Tracking Error

The expected and actual maximum deviation of a fund's returns from those of a relevant index or benchmark.

Tracker Fund

see index fund

Turnover

A measure of trading activity within a fund, indicating how active a manager has been in buying and selling the stocks held within the portfolio. Neither high nor low turnover is necessarily good or bad and the number will generally just reflect the individual manager's investment style. For example, 100% turnover indicates that on average each stock is held for one year.

UCITS

Undertakings for Collective Investments in Transferable Securities (UCITS) are investment funds that have been established in accordance with European Law. A fund authorised in one EU Member State can be freely marketed in any other Member State.

UCITS are subject to rules as to what they can invest in, how much they can borrow and how much of the fund can be exposed to any one counterparty.

Underweight

This term refers to when the holding of either an individual company, industrial sector or country in a fund is lower than that of its relevant benchmark index.

Unit Trust

A trust which allows investors to pool their assets together and invest in a broad number of securities. Unit trusts are dual priced and have both a buy (offer) and sell (bid) price as opposed to OEICs.

Value Stocks

These stocks often have low P/E ratios and above-average dividend yields. They typically have slower earnings growth and low price to book ratios. Value investing is essentially buying stocks which are cheap.

Volatility

How fast, and by how much, the price of a security, sector or market changes over a period of time. A price that often moves significantly will be considered to have a high level of volatility.

Yield Curve

The yield curve is a graph which plots interest rates for similar bonds which have different contract dates and mature on different dates. Typically bonds which mature sooner will have lower yields because investors' money is tied up for a shorter amount of time. However, this is not always the case and yields can vary for a variety of reasons.