Explaining the jargon

Glossary of financial terms

We've produced this glossary to help explain some of the most commonly seen but potentially confusing terminology. Some of the definitions below have been taken from The Plain English Campaign, an organisation that campaigns against jargon across a range of industries.

Financial term	Definition
Accumulation unit	Accumulation units reinvest the income earned, instead of paying it out immediately to investors.
Additional voluntary contribution	People in occupational pension schemes can pay in extra money to increase their pension benefits. The extra money they pay in is an additional voluntary contribution.
Annual management charge / Fund management charge	This is a yearly charge made by the managers of unit trusts or investment trusts. It is usually a percentage of the value of the funds being managed.
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.
Annuity	An annuity is an amount paid out every year to someone. The money usually comes from an insurance policy. It can be split up into smaller amounts and paid out more frequently, such as monthly. It is usually paid for the rest of the beneficiary's life.
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.
Assignment	This is the formal transfer of rights to something. For instance, a bank's customer may assign, to the bank, the right to receive the benefits from a life insurance policy to give the bank security for a loan.
Attorney	An attorney is a person appointed to act for another person (such as when someone is unable to look after their own affairs). A formal document called a power of attorney is used to appoint the attorney.
Bare trust	This is a basic trust in which the beneficiary has the absolute right to the capital and assets within the trust, as well as the income generated from these assets. The trustee has no control over these assets and has no say or discretion in directing the trust's income or capital.

Financial term	Definition
Basic state pension	This is the retirement pension the Government pays to people who have paid enough national insurance contributions. Some people may receive a reduced basic state pension because they have not paid enough contributions.
Beneficiary	This is someone who benefits from a will, a trust or a life insurance policy.
Benefits in kind	If an employee or a director gets benefits (perks) from their work, such as a company car, the benefits are called benefits in kind. They may have to pay tax on the value of the benefit in kind.
Bid/offer spread	This is the difference between the bid (selling) price and the offer (buying) price.
Bid price	If you are a member of a unit trust, this is the price you will get for each unit if you cash them in.
Capital gain	You make a capital gain if you sell or dispose of a long-term asset, such as personal possessions, property, shares (excluding ISAs and PEPs) and business assets for more than the asset cost you.
Capital gains tax	This is a tax charged on certain capital gains.
Cash option (or commutation)	If you are in a pension scheme and take this option, you will receive a lump sum straightaway. However, you will then get a lower pension than if you had not had the lump sum.
Chargeable event	If a chargeable event happens, it may create a tax charge.
Compound interest	Compound interest is interest on the money lent, plus interest on any interest already added to the loan.
Consumer Price Index (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.
Defined contribution pension scheme	In this type of pension scheme the amount of the pension which will be paid out depends on how much has been invested and how well the fund has performed.
Defined benefit pension scheme	In this type of pension scheme, members receive a set pension income on retirement – based on their final salary and how many years they've been working for the company. It is also known as a final salary scheme.
Dependant	A dependant is someone who depends on someone else for financial support.
Discretionary trust	In this type of trust the trustees can decide who will benefit from the trust, when they will benefit and how much they will get.
Dividend	If a company has profits to share out, it can pay a dividend. The shareholders will receive a dividend for each share they own.
Domicile	Your domicile is the country where your permanent home is, even if you are living somewhere else for now.
Enduring power of attorney	If a person is capable of dealing with their own affairs at present, they can sign an enduring power of attorney. It will only come into effect when they are no longer capable of looking after their own affairs. It gives authority to the person appointed to act for the person who signed the power of attorney.
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.
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'.

Financial term	Definition
Executor	An executor is a legal term referring to a person named by the maker of a will or nominated by the testator to carry out the instructions of the will.
Gift	A gift is a transfer of goods or property which is free of charge.
Gilt-edged securities (Gilts)	These are first-class securities such as government stocks or local authority stocks.
Guaranteed minimum pension	This is the minimum pension which an occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
Income drawdown	This is the name given to the facility to continue to keep your retirement savings invested and take an income each year rather than buy an annuity.
Income unit	Income units pay out the income they earn to the investor, instead of reinvesting it.
Individual savings account (ISA)	There are four main types of ISA. The income earned by the money invested will be free of tax. In each tax year you can invest in: • cash ISAs • stocks and shares ISAs • innovative finance ISAs • Lifetime ISAs (subject to certain age and other limits) You can put money into one of each kind of ISA each year.
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.
Intestacy	This happens when someone dies without leaving a will. Their estate is divided up between their relatives following the rules set by law.
Investment trust	This is a company which is quoted on the stock exchange and which invests in other companies.
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.
Offer price	This is how much people have to pay for each unit when investing in unit trusts.
Open ended investment companies (OEICs)	An OEIC is a type of unit trust but there is no difference between the bid price and the offer price. In other words, the buying price and the selling price is always the same.
Opting out	If an employee leaves an occupational pension scheme, or chooses not to join one, it is called opting out.
Pension benefits	The pensions and lump sums people receive from their private pensions are called pension benefits.
Personal allowance	People do not have to pay income tax on all their income. Everyone gets a tax allowance which allows them to have some income they do not have to pay tax on. However, the amount varies depending on personal circumstances.
Personal representative	If someone dies, a personal representative is appointed to deal with the dead person's estate. If there is a will, the executors appointed will be the personal representatives. If there is no will, the courts will appoint someone.
Power of attorney	A power of attorney is a document which gives power to the person appointed by it to act for the person who signed the document.
Probate	When someone dies, the executors of the dead person's estate apply to the court for authority to deal with the estate. This authority is called probate.
Retail Price Index (RPI)	The Retail Prices Index (RPI) measures the change in the cost of a basket of retail goods and services.

Financial term	Definition
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.
Stamp duty	Stamp duty is a tax on the transfer documents for certain types of transaction. Examples are the buying of shares, patent rights and properties.
State earnings related pension scheme (SERPS) / State second pension (S2P)	Historically, people working for an employer could earn extra state pension. They paid extra national insurance as their earnings rose above a lower limit and some of this extra national insurance was for the increased state pension entitlement payable from state pension age.
Surrender value	If a policyholder cancels a life policy early, the insurance company will pay the policyholder an amount of money called the surrender value.
Tracker fund	Tracker funds invest in the same shares and in the same proportions as those reflected in the financial index they are tracking (such as the FTSE 100 index).
Trust	A trust is a financial arrangement under which property is held by named people for someone else.
Trust deed	This is a legal document which is used to: • create a trust; • change a trust; or • control a trust.
Unit-linked	Some investment policies, such as endowment policies, are used to invest in unit trusts. These are called unit-linked life assurance policies.
Unit trust	People can invest in unit trusts by buying units. The managers of the trust use the money people invest to buy investments. The fund manager values the fund’s assets from time to time and puts a new price on the fund’s units.
Unitised	This term describes investors joining together to buy units in a fund such as a unit trust.
Unitised with-profit	People with this type of with-profits policy have a share of the unit trust fund their policy is invested in.
Waiver of premium	If a member of a scheme with this benefit becomes seriously ill or disabled and cannot pay their premiums, the insurance company will pay the premium for them. This is called waiver of premium.
Will	A will is a legal document which people use to bequeath (leave as a gift) money and property when they die.
With-profits policy	A policyholder with this type of life insurance policy shares in the surpluses of the insurance company’s life insurance and pensions business.
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.

Talk to us

If you would like advice in relation to any of the terms above (or any others you may be unsure about), or if we can be of any assistance with regards to your personal financial planning, please don’t hesitate to contact us.

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