



Glossary

AER: Annual Equivalent Rate. Shows what the interest rate on savings would be if it were added to savings at the end of each year, used as a way of comparing different financial products which calculate interest at different times.

All risks: A contents insurance policy covering possessions even when they are away from your home.

Annuity: A special type of investment that can pay out a regular sum over the lifetime of the owner.

APR: Annual Percentage Rate. The cost of a loan, taking into account the interest you pay, any other charges and when the payments fall due. The higher the APR, the dearer the loan.

Arrears: Money owed that was not paid when due.

Assets: Everything that a person owns with monetary value (e.g. property, investments, cash).

Available credit: The amount of money a store card or credit card company will lend you immediately.

Balance The amount of money you have in your account at any particular time, or the amount you owe on a credit or store card, or on a purchase after the deposit has been paid. A balance brought forward is the figure shown on your previous statement.

Beneficiary: A person named in a life assurance policy.

Bonds: Loans to an organisation such as a company, a local authority or the Government, also called 'fixed interest securities' or simply 'stock'. Bonds are a form of investment, usually with less risk than shares.

Budget: A plan to show how much money a person does or will earn and how much they will need or be able to spend.

Building society: An organisation owned by its members, some of whom will be customers saving with or borrowing from the society. They often offer a range of financial services similar to banks.



Capital: The amount of money you originally have, save or invest, before any interest, other return or loss is taken into account.

Cash flow: A record of all the money coming in, minus any payments as they are made. If your receipts are bigger than your payments, you have a net cash inflow. If your receipts are less than your payments, you have a net cash outflow.

Compound interest: The usual type of interest paid on savings and loans, based on the capital plus the interest already paid so far, so the savings or the loan will grow by increasing amounts (unless money is taken out or the loan paid off).

Comprehensive insurance: Provides cover for accidental damage to your own car in addition to the third party cover.

Credit: An account 'in credit' has money available to be spent. Buying something 'on credit' means with a loan which must be paid back.

Credit cards: Credit cards are available from most banks, and allow you to borrow money up to a certain limit. When you buy something with your credit card, the amount you spend is added to your total borrowing. If you don't repay the full amount, you will start paying compound interest, which will build up each month.

Cycle: A series or sequence of events that happen in repeated order or pattern.

Debit card: Can be used to pay for many things without using cash or a cheque: the money is taken out of your account electronically straight away.

Dependents: People who are financially dependent on you, such as children or an elderly relative you care for.

Dividend: The income from shares, often paid twice a year.

EMA: Education Maintenance Allowance. Money that can be paid by the Government to young people between the ages of 16 and 19 to help them continue with study.

Economic wellbeing: A person's sense of financial security, including avoiding poverty, achieving employment and understanding personal finance.

Endowment: An insurance policy that pays out a lump sum at the end of a set period or on death, whichever comes first.



Enterprise: Running a business or, in education, learning how to do so.

Entrepreneur: Someone who starts their own business.

Final salary pension: A pension where the amount you receive on retirement is worked out on the basis of how much you earned in the last year/s of work and how long you were in that job.

Financial capability: A term used to describe a person's general awareness of issues relating to money, including keeping track of finances and choosing financial products and services.

Financial year: The 12-month period a business uses for recording its accounts. It is often the same as the calendar year or the tax year, but does not have to be.

FSA: Financial Services Authority. The UK's financial watchdog, which regulates how financial institutions are allowed to conduct their business.

Graduate earnings premium: The extra earnings expected with having a university degree.

Gross: An amount of money before any deductions - usually meaning tax - have been taken. Gross profit is the amount of money made from selling goods and services minus the cost of making/providing them.

Income: Money that is earned from doing work.

Income tax: A tax that is payable on almost all types of income, at various rates depending on the level of income.

Inflation: A continual increase in the general level of prices. Over time a given amount of money will buy fewer goods and services.

Insurance cover: The situations or circumstances you are insured against.

Inheritance Tax: Tax on the value of a deceased person's assets. Tax may also be imposed on any gifts made during the seven years before death.

Interest: The reward you get for lending your money to say, a bank or a building society. Also the cost you pay when you borrow money through a loan or credit agreement. It is usually worked out as a percentage (the interest rate) of the money



you have borrowed.

Investment: Products that typically involve some risk of losing your original money but give you the opportunity of better returns than you get from savings.

Life assurance: Payments that you make regularly into a fund, which pays out the person(s) you nominated when you die during the term of the policy. Life assurance policies are often for a fixed period only, known as the 'term'.

Mortgage: A type of secured loan usually taken out to buy property. If you fail to pay off the loan, the lender keeps the property.

National Insurance: A Government deduction from your wages used to pay for benefits that you might need to claim, and your state pension when you retire.

Net: Indicates a sum of money from which certain amounts, usually meaning tax, have already been taken away. Net income is how much you earn after any deductions for tax and National Insurance. A person's net worth is the overall value of all their assets minus all liabilities.

Occupational pension: A pension from a scheme set up by an employer. Employees usually have to join the scheme to be eligible and may have to make contributions towards it.

Pension: An income paid out after someone retires. The Government gives tax relief on money paid into a scheme designed to provide a pension, making it more beneficial than other forms of saving. The money cannot be removed (or paid back in instalments) until a minimum age - currently 50 - has been reached. The minimum age will rise to 55 from April 2010.

Pension deduction: Payments into an occupational pension scheme taken automatically from your pay.

Personal finance: An individual's financial affairs, including decisions about choosing products and services, and saving, investing, spending and borrowing money.

Personal pension: A pension plan, not tied to a particular employment, which you can keep paying into even if you change job.

Policy: Another word for plan or cover, e.g. for insurance. A policy agreement sets out everything that is agreed between you and the insurer, including what is covered and any exclusions.



Profit and loss: In a business, you make a profit if you sell goods or services for more than your costs. You make a loss if the proceeds are less than your costs.

Risk: The chance that an investor will lose all or part of an investment.

Salary: An amount of money paid to an employee, usually paid directly into his or her bank account every month.

Secured loan: A loan borrowed against the value of something you own. If you fail to make repayments, the lender can then take the security - the thing you own, such as your house - instead.

Shares: An investment that makes you part-owner of a company, along with all the other shareholders. Some shares pay you an income (dividends) regularly. With all shares, you accept a capital risk: if the share price rises, you will make a profit when you sell, but if the share price falls, you will instead make a loss.

Stakeholder pension: A type of pension scheme designed to encourage people to save for their own pension, by having low charges and flexible payments.

State pension: A pension paid to you when you retire by the Government. The amount you get will depend on your National Insurance record (or that of your partner).

SWOT analysis: a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities and Threats involved in a project or business venture.

Tax: A fee charged ('levied') by a government on a product, income, or activity.

Tax year: A 12-month period running from 6th April one year to 5th April the next year. Taxes, such as income tax, are worked out over this term.

Trend: A general change or tendency.

Unsecured loan: A loan that does not use anything you own as security. If you do not keep up with payments your possessions are not immediately at risk, but you can be taken to court, and your credit rating can be adversely affected.

VAT: Value Added Tax. A tax paid by the consumer for goods and services, currently 15% in the United Kingdom.