Financial glossary

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1. Investment Planning

Corporate Bonds

Issued by companies they have a nominal value (usually £100) which is the money that will be returned to the investor at a future date. They also pay a stated interest rate each year.

Gilts

Bonds issued by the Government that pay a fixed rate of interest twice a year.

Inflation Rates

The annualised percentage change in the prices of goods and services in an economy - in the UK this is based on changes to the Consumer Price Index, which is a basket of 700 goods and services.

NISAs

A New Individual Savings Account (formerly ISA) is a tax-free savings account in which up to £15,240 (2016/17) a year can be invested.

Interest Rates

Amount paid as a percentage of the amount borrowed for the use of assets, such as cash investments.

Investment Bonds

Life insurance policies where a lump sum goes into a variety of funds.

Mutual Funds

A collection of stocks and/or bonds. Each investor owns shares, which represent a portion of the holdings of the fund.

Stocks & Shares

Stocks and Shares fall into 3 categories: 1. Individual Equities - where a company's capital is divided into equal denominations, 2. Unit Trusts or Open Ended Investment Companies (OEIC) - a trust is set up to invest in other companies, 3. Investment Trusts as OEICs but they are stock market-quoted companies in their own right.

2. Health & Income Planning

Critical Illness Protection

Pays out a tax-free lump sum or income on the diagnosis of certain life-threatening or debilitating conditions.

Key Man

Pays out an agreed sum if a key employee stops work due to death or a critical illness.

Mortgage Protection Plan

Pays a mortgage for a fixed period (12 or 24 months) in the event of sickness, an accident or unemployment.

Term Assurance

An insurance cover that will pay out on death if the policy holder dies during the term (time frame) of the policy.

Whole of Life Insurance

An assurance guaranteed to pay out on death providing premium requirements have been met.

For more information, please refer to our Advice for individual investors & protection planning PDFs

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3. Retirement Planning

Personal Pension

A personal pension is one that you take out yourself by choosing the provider and making arrangements for your contributions to be paid. The provider claims tax relief at the basic rate and adds it to your fund. Higher rate tax-payers claim the additional rebate through their tax return.

Group Personal Pension

An employer makes an arrangement with a pension provider or financial advisor to offer personal pensions to a group of employees.

Annuities

A contract with an insurance company which guarantees you an income (usually for life) in return for a lump sum payment (cash from a money purchase pension scheme).

Pension / Income Drawdown

A taxable income direct from your pension fund while the remainder remains invested. Tax is not levied on a cash lump sum, as long as no more than a quarter (25%) of the benefits (pot) are taken. (The proportion may be higher if you have a protected lump sum.)

Money Purchase Scheme

Money purchase schemes provide benefits on retirement based on the amount of money that has been paid in to the scheme, how long this money has been invested, the level of charges and investment returns over this period. There are several options on the way the income can be taken including a pension drawdown or purchasing an annuity.

Self Investment Pension Plans (SIPPs)

A SIPP will allow regular and lump sum cash payments and the transfer of other pension schemes into the SIPP. SIPPs use a wide range of investment sources and give the option of pension drawdown as well annuity purchase.

Stakeholder Pension Scheme

A low charge contribution pension. Employees can stop and start and vary their contribution without a penalty. Employees make their own investment selection from the choice offered.

4. Tax and Inheritance Planning

Capital Gains Tax

When selling or giving away an asset, if it has increased in value, you may be taxed on the profit (doesn't apply on personal belongings worth up to £6,000 or in most cases, your main home).

Inheritance Tax

A tax paid on your estate - including any assets held in trust and gifts made within seven years of death valued over the current Inheritance Tax threshold (£325,000 in 2016/17). From 2017 a family home allowance will be added to the threshold, meaning the total tax-free allowance for a surviving spouse or civil partner will be up to £1 million by 2020-21. The tax is payable at 40 per cent on the amount over this threshold.

For more information refer to our guide to our pensions for individual investors and guide to inheritance tax.

The information in this document is based on our current understanding of HMRC rules and regulations which may be subject to change. Bridge Investment Partners Ltd. are authorised and regulated by the FCA.

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