

Managing My Money

Glossary

Annual Equivalent Rate (AER)

AER or Annual Equivalent Rate is the rate of interest on savings products calculated to take into account different payment patterns.

Annual Percentage Rate (APR)

APR or Annual Percentage Rate is a summary figure for comparing debt costs which bring together interest rates and other charges.

Annuity

A type of investment where the investor pays a lump sum and in return receives an income paid either for a set period or, as in the case of most pensions, for the rest of their life. Once the investment is made, they cannot change their mind or get back their lump sum.

Assets

Everything that a person owns that has a monetary value (e.g. property, investments or cash).

Bankruptcy

A process that happens when an individual cannot pay their debts, and all their property is distributed to the people to whom they own money.

Bond

A certificate of debt that is issued by a government or corporation in order to raise money.

Bridging loan

A temporary loan to extend further funds during the selling of one property, when the seller has already acquired another.

Broker

A broker is a person or firm that helps to arrange the sale of products from one party (the product provider) to another (the product buyer). The broker will normally charge a fee to the buyer of the product for this service.

Budget

A detailed plan of income and expenditure over a certain period of time - typically a year.

Compounding

The process by which interest payments are added to the original amount borrowed to give a higher total figure which, in turn, attracts interest rate changes.

Conspicuous consumption

The ostentatious display of wealth in order to gain recognition by others of an increase in one's status.

Consumer society

A society in which people place a high value on possessions and are continually encouraged to purchase more.

Current asset ratio

Total liquid assets divided by total short-term liabilities.

Cyclical

A recurring pattern of a variable over time showing peaks and low points at regular intervals.

Defined benefit

Describes a pension scheme where the pension is worked out according to a formula, usually linked to pay and length of time in the scheme.

Defined contribution scheme/Money purchase scheme

Describes a pension scheme where the pension depends on the amount paid in, how the invested money grows, and the amount of pension that can be purchased from an insurance company at retirement.

Dividends

The part of a company's post-tax profits distributed to shareholders, usually expressed as an amount per share.

European Economic Area (EEA)

A free trade area consisting of the European Union (EU) members, plus Iceland, Norway and Liechtenstein.

Face value

The nominal value of a bond. The amount, excluding interest, the investor gets back on the maturity of the bond.

Financial capability

The ability to understand finances and make sound financial decisions.

Financial constraint

Inadequate resources that limit achievable goals.

Financial intermediaries

Persons and firms who arrange investments (and other products) on behalf of others, such as financial advisers and brokers.

Flat rate

Describes an amount of pension where the value is not linked to a person's earnings.

Funded scheme

Pension scheme where an investment fund is built up from which to pay pensions and other benefits as they fall due.

Gearing ratio

Total liabilities divided by total assets (usually expressed as a percentage).

Gilts

Gilts raise money for the UK government by offering a secure investment, usually over a fixed period, with a fixed rate of interest. Gilts can be bought and sold on the London Stock Exchange. At the end of the term, the holder is repaid the original purchase price.

Help to Buy scheme

Name given to two government schemes to help with home purchase. The first provides a government loan to top up the deposit when buying a new-build home. Under the second, the government acts as a guarantor where a lender offers a 95% LTV loan to buyers of new-build and existing homes.

Heuristics

Rules of thumb used to guide one in the direction of probable solutions to a problem.

HM Revenue & Customs (HMRC)

HMRC is the department responsible for the business of the former Inland Revenue and HM Customs and Excise. It collects the bulk of tax revenue as well as paying tax credits and Child Benefit.

Housing Association (HA)

An organisation that primarily provides rental properties, particularly for those who are economically or socially disadvantaged.

Income

Money flows received over time.

Income drawdown

Leaving a pension fund invested after the pension starts to be paid. The pension is drawn directly from the fund using any income the investments earn and/or periodically cashing in some of the investments.

Income Tax

A tax that is payable on almost all sources of income within a given tax year from 6 April to the following 5 April. There is no minimum age at which a person becomes liable to pay income tax.

Income Tax 'Rent-a-Room'

This scheme allows someone who rents accommodation in their property to earn up to £4250 (in 2013/14) tax free from rental income. This is halved if the income is shared, for example, with a partner.

Insurance Premium Tax (IPT)

A tax levied by the UK government on some insurance premiums.

Interest

The charge a borrower pays for the use of someone else's money.

Interest rate

The cost to a borrower of a loan or other form of credit, normally expressed as an annual percentage.

Interest-only mortgage

A mortgage where the periodic repayments made by the borrower to the lender are solely the interest due and where the capital or principal sum borrowed is paid off in full at the end (or 'maturity') of the mortgage.

Joint tenants

Two or more people who own a property together. The joint tenants do not own distinct shares in the property.

Key Facts Illustration (KFI)

Details the features, terms and conditions of a mortgage on a standard basis, enabling comparisons to be made between different lenders' products.

Liquid assets

Those assets that can be quickly converted into cash.

Loan-to-value (LTV)

A measure of a loan (or mortgage) as a proportion of the lender's valuation of the property on which the loan (or mortgage) is secured.

Means tested

Means tested refers to payments that are made only to those who are assessed to have a certain level of income or less, and in some cases, a certain level of assets or less.

Mortgage indemnity guarantee (MIG)

An insurance policy that insures the lender for any losses on lending above a defined minimum loan-to-value sum. This is charged to the borrower.

National Insurance contributions

Contributions from both employees and employers, which form the basis for paying state benefits related to unemployment, sick pay and pensions.

Net income

Income after deductions such as Income Tax and National Insurance.

Nominal value

The face value of a bond. The amount, excluding interest, the investor gets back on the maturity of the bond.

Opportunity cost

The cost of doing or having something measured in terms of the best alternative foregone (done without).

Other things being equal

A term used by economists and others to indicate that while changing one factor, other factors remain unchanged.

Pay-as-you-go (PAYG) scheme

Pension scheme where pensions and other benefits paid out today are paid for out of tax revenues collected today.

Platforms

A website-based arrangement that enables investors or their advisers to select and buy investments and hold them in a portfolio (which might be in the form of, for example, an ISA or pension scheme) administered by the platform provider.

Principal sum (or capital sum)

The original amount of debt taken out.

Private pension

Used collectively to refer to occupational pensions and personal pensions rather than to state pensions.

Progressive taxation

A tax whereby the proportion of a person's income that is paid as tax increases as their income increases.

Redistribution of income

The process of re-allocating income to achieve social objectives, usually the creation of a 'fairer society' through a more equal distribution.

Registered civil partner

A same-sex partner treated in the same way for tax, benefit and most legal purposes as a husband or wife. Two people of the same sex can form a civil partnership by signing a registration document.

Repayment mortgage

A mortgage where the periodic repayments made to the lender are the sum of the interest due and an amount of the original capital (or 'principal') sum borrowed.

Risk-aversion

Preferring a lower but more certain financial return rather than a higher but less certain return.

Self-insurance

The process of establishing a fund to cover the costs of any potential financial loss.

State additional pension

A state pension available mainly to employees. The amount received varies from one person to another depending largely on their average earnings while the pension was building up.

Symbolic consumption

Consuming products or lifestyles for social meanings attached to those products or lifestyles for others to see.

Tenants-in-common

Two or more people who own a property together. Each has a distinct share.

Term

The period of time over which a debt is to be repaid.

Trade-off

A sacrifice of something in order to have something else.

Unit trusts

Collective funds that allow private investors to pool their money in a single fund.

Working life

An official definition meaning the tax years from age 16 to pension age. For example, a person whose state pension age is 68 will have a working life of 52 years.

Write-off

A damaged or stolen car that insurers decide to pay an agreed value for rather than paying for the cost of repairs.

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