Ribble Wealth Management Limited

Glossary of Terms

Additional-rate Taxpayer
An *additional-rate taxpayer* is one who is subject to *Income Tax* of up to 45% in the current *tax year* (2016/2017), earning above the threshold of £150,000. Further, as a result of the fact that their income exceeds £100,000, they do not enjoy a *Personal Allowance*.

Additional Voluntary Contributions ("AVCs")
When topping-up O*ccupational Pension Schemes* by making extra contributions into a scheme that is run by an employer, *Additional Voluntary Contributions ("AVCs")* are made.

Annual Allowance
The *Annual Allowance* is the maximum amount of money that can be invested in a pension in any given *tax year* on which tax relief can be claimed. The amount has reduced over the course of many years, falling from £215,000 in the 2006/2007 tax year to just £40,000 in 2016/2017. If previous years' allowances haven't been used, they can be carried forward (subject to certain rules and limits).

Annuity
At retirement, one of the options available is to buy an *annuity* with the pension fund. This is a payment that is a guaranteed regular (usually monthly) income during retirement. There are various options available with an annuity, such as a spouse's annuity, escalation (increases in payment e.g. in line with the *Retail Prices Index ("RPI")*, or at a *fixed rate* e.g. 3%), guaranteed minimum terms e.g. five years and *Value Protection*. The more options chosen, the lower the guaranteed regular income available from the pension fund. Income from an annuity is taxable. As longevity has increased over recent years, annuity rates have fallen.

Annual Percentage Rate ("APR")
The figure next to the abbreviation "APR" shows 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 diversifying a portfolio by use of a range of different investments such as *Equities*, *Gilts*, *Property* and *Bonds*. By diversifying the portfolio, *risk* is reduced since in the event of a reduction in value of one of the asset classes, the other asset classes may not necessarily fall in value. Suitable asset allocation depends on the individual's investment plans and attitude to risk.

Basic-rate Taxpayer
A *basic-rate taxpayer* is one who is subject to *Income Tax* of up to 20% in the current *tax year* (2016/2017) and therefore earning below the higher-rate Income Tax threshold (of £32,000 after deduction of the *Personal Allowance*). This means that a basic-rate taxpayer usually has total annual income of less than £43,000.

Beneficiaries
Beneficiaries are persons named in a *Will* or under a *Trust* as entitled to receive a bequest or benefit.

Bonds
Bonds are types of security held on a debt, typically with a *fixed rate* of interest. They are a long-term debt paper and are usually sold to investors by companies. Not to be confused with an *Investment Bond*.

Capital Gains Tax ("CGT")
Capital Gains Tax ("CGT") is payable if the value of assets sold, less any annual exemption and/or losses on other sales, is greater than the amount paid. The CGT exemption for individuals for 2016/2017 is £11,100 (this figure is halved for *Trustees*) and CGT is payable on any gain over this amount. The rate of CGT payable in the *tax year* 2016/2017 can be 10%, 18%, 20% or 28% dependent on the tax status of the individual subject to CGT and the type of asset on which the gain has been made. *Indexation* (to increase the nominal purchase price to take account of inflation) is no longer allowable but costs associated with the investment are a permitted expense.

Child Trust Funds (“CTFs”)
It is no longer possible to apply for *Child Trust Funds (“CTFs”)* as they have been replaced by *Junior Individual Savings Accounts (“JISAs”)*. However, existing CTFs continue under similar rules to JISAs. Some product providers allow the transfer of a CTF to a JISA.

Company Pension Schemes
See *Occupational Pension Schemes*.

Compound Interest
Compound interest (or compounding interest) is interest that is calculated on the initial sum as well as on the accumulated interest of previous periods – effectively interest on the interest – and will make a sum grow faster than *simple interest*, which is calculated only on the initial sum excluding accumulated interest. Compounding periods are typically daily, monthly or annually.

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 consumer goods and services, such as transportation, good and medical care, purchased by households. It differs from the *Retail Prices Index (“RPI”)* in its method of calculation and the fact that CPI excludes the costs of housing.

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

Corporation Tax
This is a tax payable by limited companies on their profits. The current rate for the 2016/2017 *tax year* is 20%.

Decreasing Term Assurance

A type of *life assurance* that provides a lump sum benefit in the event of the death of the life assured within a certain predetermined period of time e.g. ten years. Strictly speaking it is an insurance since there is no certainty that the life assured will die during the term (unlike a *Whole of Life Assurance* policy). Insurance covers things that might happen; assurance covers things that will happen. The level of cover decreases over the life of the policy, although the *premium* usually remains constant. Sometimes used in conjunction with a '*repayment mortgage*' to ensure that the *mortgage* is repaid on death, the policy will be cancelled by the insurer if premiums are not maintained and will expire on either the death of the life assured during the term or at the end of the term. In the event that the life assured does not die during the term, no refund is made.

Defined Benefit Pension Schemes

In these types of pension scheme, members receive a pension income at retirement based on their final salary and how many years they've been working for the company. They are also known as *Final Salary Pension Schemes*.

Defined Contribution Pension Schemes

In these types of pension scheme, the amount of money in the retirement fund depends on the amount of money invested, where the money was invested and by how much it grows. They can also be known as *Money Purchase Pension Schemes*.

Dividends

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

Equities

Equities is a term that is used to describe *shares* issued by a company. If shares are owned in a company by an individual, that individual owns some of the company's '*equity*'.

Equity
Equity can be the singular of *Equities* (e.g. UK Equity) but can also be used to describe the amount, or value, of a property that is owned by an individual. If an individual has 'equity' in a property, it means that they own a portion of it above the value of any debts (such as a *mortgage*) secured on that property.

Equity Release
Equity Release is the process of using the value of a property to raise cash – releasing the *Equity*. There are two main types of Equity Release schemes available: the '*Lifetime Mortgage*' (also known as an '*Equity Release Mortgage*') and the *Home Reversion Scheme*.

Equity Release Mortgage
An '*Equity Release Mortgage*' (sometimes called a '*Lifetime Mortgage*') allows an individual to use the value of their property to raise cash (by way of *mortgage*) in order to release some of the *equity*. A percentage of the value of the property is borrowed in exchange for a lump sum and/or regular income payments. The older the borrower(s), the higher the percentage that can be advanced. When the property is sold (usually following the death of the borrower, or a move into residential or nursing care), the plan provider reclaims their loan, plus any interest due, any excess passing to the borrower or their *estate*.

Estate
An individual's *estate* is the generic term given to a person's total assets less their total liabilities.

Estate Planning
Proper *estate planning* could save hundreds of thousands of pounds, because *Inheritance Tax ("IHT")* (sometimes called 'death duty') will be charged on the value of the *estate* that exceeds the IHT threshold at the time of death. IHT is currently charged at 40% of the value of the estate in excess of the IHT threshold.

Ethical Investments
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 arms, 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 ("SRIs")*.

Executors
Executors are persons appointed in a *Will* to gather together and distribute an individual's *estate*. In order to do this, following the death of the individual for whom they act as executors they must apply for *Probate*. The process is quite straightforward and, contrary to common belief, there is no need to involve a solicitor. Once Probate has been obtained, the estate can then be administered and subsequently distributed to the *Beneficiaries*.

Family Income Benefit
A type of *life assurance* that provides a regular tax-free payment in the event of the death of the life assured within a certain period of time predetermined at outset e.g. ten years. The level of *premium* usually remains the same over the life of the policy. Sometimes used for family protection as an alternative to *Level Term Assurance* since it is often cheaper (the total sum potentially payable by an insurance company decreases over the term of the policy) and the level of benefit required is easier to determine. The policy will be cancelled by the insurer if premiums are not maintained and will expire on either the death of the life assured during the term or at the end of the term. In the event that the life assured does not die during the term, no refund is made.

Final Salary Pension Schemes
See *Defined Benefit Pension Schemes*.

Financial Conduct Authority ("FCA")
The *Financial Conduct Authority ("FCA")* is the UK's financial regulatory body. It operates independently of the Government and is financed by charging fees to firms offering financial services, including *Independent Financial Advisers ("IFAs")*.

Financial Ombudsman Service ("FOS")
The *Financial Ombudsman Service ("FOS")* was set up to help settle individual disputes between consumers and financial firms. It gives consumers a free, independent service to help resolve disputes, although it is usually necessary to lodge the complaint with the financial firm before the Ombudsman can consider it. There are limits on the value of any award that the Ombudsman can make.

Financial Services Compensation Scheme ("FSCS")
The *Financial Services Compensation Scheme ("FSCS")* is the UK's statutory compensation scheme for customers of authorised financial services firms. It was set up to pay compensation to an individual if a firm is unable, or likely to be unable, to pay a claim against it. There are limits to the level of compensation that can be made.

Fixed Interest Security
This is another name for a *Bond*. The amount of interest received when invested in a *Fixed Interest Security* is stated at the time of purchase. These are usually regarded as a lower *risk* investment than *Equities*.

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

Floating Rate
A *Floating Rate* is an interest rate that does not have a *fixed rate*; also known as a variable or adjustable rate. There are also Floating Rate *Bonds* which act like a *Fixed Interest Security* but with a variable rate.

Footsie 100
The colloquial term for the Financial Times Stock Exchange 100 (FTSE-100), the index of the largest 100 *Public Limited Companies ("PLCs")*.

Free-Standing Additional Voluntary Contributions ("FSAVCs")
When topping-up O*ccupational Pension Schemes* by making extra contributions into a scheme that is run by an organisation other than the employer (e.g. an investment company), *Free-Standing Additional Voluntary Contributions ("FSAVCs")* are made.

Gearing
Gearing refers to an investment company's borrowing (rather than selling existing holdings) in order to invest larger amounts of capital in specific holdings with the hope of enhancing returns for shareholders. If prices rise, the investment fund benefits from the increased growth on the assets but, conversely, if prices fall, the investment fund loses out in terms of both the loss in value of the assets and the cost of borrowing. As a result, investments that use gearing carry more *risk* than investments than do not.

Gilts
Gilts, sometimes also called Gilt-edged or Treasury Bonds, are *Bonds* that are issued by the UK Government. They are regarded as being very low-*risk*, secure investments because of the Government's promise to pay back the investor.

Green Investments
See *Ethical Investments*.

Group Personal Pension Schemes
As longevity continues to increase, the availability of *Defined Benefit Pension Schemes* continues to decline and, as an alternative, many companies now choose to offer *Group Personal Pension Schemes* as an alternative. This is the name given to *Personal Pension Schemes* offered by employers to employees (who form the "group").

Hedge Fund
A *hedge fund* is a high-*risk* investment and comprises a complicated set of strategies that aims to make attractive returns on the stock markets.

Higher-rate Taxpayer
A *higher-rate taxpayer* is one who is subject to *Income Tax* of up to 40% in the current *tax year* (2016/2017), earning above the higher-rate Income Tax threshold (of £32,000 after deduction of the *Personal Allowance*). This means that a higher-rate taxpayer usually has total annual income of between £43,000 and £150,000. Individuals with earnings of £122,000 or more can lose the Personal Allowance.

Home Reversion Scheme
A *Home Reversion Scheme* allows an individual to use the value of their property to raise cash in order to release some of the *equity*. A lump sum is paid in exchange for the value of the property (or a percentage of it). Older homeowners are paid a higher percentage of the value. When the property is sold (usually as a result of death or a move into residential or nursing care), the plan provider retains the property (or the percentage of it), any excess passing to the individual or their *estate*.

Income Protection Insurance
This is an insurance policy that, in the event that the insured is unable to work due to illness or injury, pays a monthly income which continues until the person returns to work, retires or the plan maturity date is reached (whichever is the sooner). It is normally capped in order to avoid *moral hazard*.

Income Tax
This is a tax payable on income. Generally, all income is taxable. The main exceptions are for income falling within the *Personal Allowance* and income that is generated from certain tax-efficient investments such as *Individual Savings Accounts ("ISAs")*.

Income Withdrawal ("Drawdown")

This is a form of U*nsecured Pension* by which 25% (usually) of an individual's *Personal Pension Schemes* are taken as tax-free cash and the balance is used to provide taxable withdrawals to form an income, either on a regular or ad hoc basis**.** *Income Withdrawal ("Drawdown")* can also be 'phased', by the taking of small 'chunks' of tax-free cash and drawdown. For instance, a £500,000 pension could provide £125,000 tax-free cash, leaving £375,000 to provide a taxable income of (say) £15,000 p.a. or it could be phased and provide annual tax-free income of £5,000 in addition to an annual taxable income of £15,000. However, this type of pension is not without *risk* since the funds remain invested.

Independent Financial Advisers ("IFAs")

Independent Financial Advisers ("IFAs") are professionals who give financial advice about products and services across the whole market (rather than being tied to the products of a single provider, or being restricted to a limited range of products). They act on behalf of their clients and are typically remunerated by way of fees, although may be remunerated by way of commission paid by the providers of some products such as certain insurance policies e.g. *Income Protection Insurance* and certain *life assurance* products. Any fees that are payable and any commissions received are disclosed in advance.

Indexation

The adjustment of figures to account for (typically) inflation.

Individual Savings Accounts ("ISAs")

Individual Savings Accounts ("ISAs") are not investments in their own right; they are a tax-free "wrapper" in which cash or investments can be sheltered from *Capital Gains Tax ("CGT")* and *Income Tax*. They are not normally exempt from *Inheritance Tax ("IHT")*, however. Money can be invested into a wide range of investments (these including thousands of *Unit Trusts* and *OEICs*) up to the annual limit of each *tax year* (£15,240 in 2016/2017).

Inheritance Tax ("IHT")

Inheritance Tax ("IHT") is the tax that can be levied on the *estate* of an individual after their death. It is currently charged at 40% on amounts above the IHT threshold (£325,000 in 2016/2017), which can change every year. A person's *estate* includes the total of everything owned, less any liabilities at the time of their death (and certain post-death expenses such as funeral costs). If this amount is less than the threshold, no IHT is payable. Careful, professional financial planning can often reduce this burden, or eliminate it entirely, by the use of a *Trust* or some form of *life assurance* policy. It should be noted, however, that the *Financial Conduct Authority ("FCA")* does not regulate Inheritance Tax advice.

Interest-only Mortgage

A *mortgage* is a loan secured on the value of the property. An '*interest-only mortgage*' is one that requires the borrower to make regular payments of interest only over the period. If interest rates remain unchanged, so do the payments. A plan for repayment of the borrowed monies is often set up to run alongside the mortgage, such as *Individual Savings Accounts ("ISAs")* in order to accumulate sufficient savings over time with which to discharge the mortgage. Alternatives to ISAs include *Personal Pension Schemes* (where the tax-free cash available can be utilised for mortgage redemption) and downsizing (discharging the mortgage upon sale and using the *equity* in the property to buy a smaller property).

Investment Bond

An *Investment Bond* (or Insurance Bond) is a form of *life assurance* policy used for the purposes of investment. They can be written on the basis of single or multiple lives assured, can be held in *Trust*, and remain in force until encashment or until the death of the last of the lives assured, whichever is the later. They can be held onshore or offshore, both having different forms of tax treatment. Any tax paid on an Onshore Investment Bond cannot be reclaimed, even by *non-taxpayers*.

Joint Life

A *joint life* policy is one that is taken out by two (or more) people and can be issued on a first- or last-survivor basis. First-survivor policies pay out in the event of the demise of the first life assured, last-survivor policies not paying out until the last of the lives assured passes away. Joint life policies can be useful, for instance, in order to protect a family in the event of either or both parents dying or to assist in the payment of *Inheritance Tax ("IHT")*.

Junior Individual Savings Accounts ("JISAs")

Like *Individual Savings Accounts ("ISAs")*, JISAs offer a choice of thousands of funds that can be held in a tax efficient manner. Parents of children under 16 that do not have *Child Trust Funds ("CTFs")* can open a JISA in the name of their child (or children). The maximum subscription in the current *tax year* (2016/2017) is £4,080. The child can take control of the JISA at age 16 but cannot access the money until they reach the age of 18, at which time in converts to an ISA.

Key Features Documents ("KFDs")

Key Features Documents ("KFDs"), sometimes referred to as Key Facts Documents, are documents that provide information about the nature and complexity of the financial product being recommended, how it works, any limitations or minimum standards that apply and its material benefits and *risk* in order for a client to make an informed decision about whether or not to proceed with the recommendation. It will also provide information relating to complaints handling, compensation and cancellation rights.

Key Investor Information Documents ("KIIDs")

Key Investor Information Documents ("KIIDs") are documents which, under EU law, must be provided to anyone who invests in a fund which comes under the EU's new regulatory directive UCITS IV – essentially any *Open-Ended Investment Companies ("OEICs")* or *Unit Trusts*. They provide information to help understand the nature and *risk* of investing in these investments.

Key Person Insurance

A *life assurance* policy that a company purchases on a key executive's life; the company meets the *premium* and receives any settlement.

Level Term Assurance

A type of *life assurance* that provides a lump sum benefit in the event of the death of the life assured within a certain period of time predetermined at outset e.g. ten years. Strictly speaking it is an insurance since there is no certainty that the life assured will die during the term (unlike a *Whole of Life Assurance* policy). The level of cover remains the same over the life of the policy, as usually does the *premium*. Sometimes used in conjunction with an '*interest-only mortgage*' to ensure that the *mortgage* is repaid on death, since the value of any repayment vehicle used (if any) is not known and is likely to fluctuate. The policy will be cancelled by the insurer if premiums are not maintained and will expire on either the death of the life assured during the term or at the end of the term. In the event that the life assured does not die during the term, no refund is made.

Life Assurance

Life assurance is the generic term for a number of different protection products including (but not limited to) *Level Term Assurance*, *Decreasing Term Assurance*, *Whole of Life Assurance* and *Family Income Benefit* in which a regular (or single) *premium* is exchanged for a potential lump sum payment.

Lifetime Allowance

This is the maximum amount of money that can be accumulated as pension savings throughout an individual's lifetime without tax penalty. If the amount saved exceeds the *Lifetime Allowance*, tax (of up to 55% (2016/2017)) might be payable.

Lifetime Annuity

See *Annuity.*

Lifetime Mortgage
A '*Lifetime Mortgage*' (sometimes called an '*Equity Release Mortgage*') allows an individual to use the value of their property to raise cash (by way of *mortgage*) in order to release some of the *equity*. They borrow a percentage of the value of the property in exchange for a lump sum and/or regular income payments. The older the borrower(s), the higher the percentage that can be advanced. When the property is sold (usually as a result of death or a move into residential or nursing care), the plan provider reclaims their loan, plus any interest due, any excess passing to the borrower or their *estate*.

Money Laundering
The Government has introduced tough anti-money laundering laws in a bid to combat international crime and terrorism. This means that *Independent Financial Advisers ("IFAs")*, solicitors and other professionals are required to check that clients are who they say they are. This might be done through an electronic check, although further proof of identity in the form of a photographic document might be required, such as a passport or driving licence, where the electronic check fails due to, say, a recent change of address.

Money Purchase Pension Schemes
There are various types of *Money Purchase Pension Schemes*; *Occupational Pension Schemes*, *Personal Pension Schemes*, *Group Personal Pension Schemes*, *Self Invested Personal Pensions ("SIPPs")*, *Free-Standing Additional Voluntary Contributions ("FSAVCs")*, *Stakeholder Pension Schemes* and *Additional Voluntary Contributions ("AVCs")* can all be called Money Purchase Pension Schemes. Choice over where contributions are invested is typically in the hands of the investor. The size of the eventual fund at retirement depends on the level of contributions made, the length of the investment time period and how well investments have performed. Charges also have a significant impact on the final amount of money available to provide a retirement income, although these have reduced in recent years. See also *Defined Contribution Pension Schemes*.

Moral Hazard

Moral hazard is the term used to represent the danger represented by a lack of incentive to guard against *risk* when protected from the consequences of said risk. For instance, the level of cover available from an *Income Protection Insurance* policy is normally capped (at around 60% of salary) in order to incentivise the insured to return to work as soon as possible following injury or illness. A lack of cap might mean that the insured delayed the return to work as long as possible in order to enjoy the benefits of the income without any requirement to work for it.

Mortgage

A *mortgage* is simply a loan, secured on a property. There are numerous types of mortgage although the main two are an '*interest-only mortgage*' and a '*repayment mortgage*'. In recent years, the use of an '*Equity Release Mortgage*' has become more prevalent. Other mortgages include 'buy-to-let mortgages' (allowing investors to purchase property with a view to renting it out to produce an income), 'commercial mortgages' (for purchase of shops, offices, warehouses, etc.) and 'let-to-buy mortgages' (allowing homeowners to raise a mortgage on their main residence with a view to renting this and purchasing another home). Mortgages can also be *fixed rate*, tracker (tracking a specified rate of interest such as the Bank of England Base Rate), discounted (receiving a discount on the Standard Variable Rate of the lender), capped (where they do not exceed an interest "cap"), collared (where they cannot fall below an interest "collar"), capped **and** collared, cashback, etc. Professional advice is clearly a must with such a plethora of options available.

National Insurance Contributions ("NIC")

National Insurance Contributions ("NIC") comprise various different classes and are paid by employers, employees and the self-employed. They can also be paid voluntarily. They are qualifying payments for certain benefits including the *State Pension* and the amount payable can vary depending on the individual's NIC record.

Non-taxpayers
An individual with income below the *Personal Allowance* threshold will typically not pay tax and can then choose to receive gross interest (interest without tax deducted at source). Further, overpaid tax can be reclaimed provided the claim is made within set time limits, usually around six years.

Occupational Pension Schemes
Sometimes called *Company Pension Schemes*, *Occupational Pension Schemes* are arrangements set up by an employer for the benefit of its employees. They can be set up as *Defined Benefit Pension Schemes* or as *Defined Contribution Pension Schemes.*

Open-Ended Investment Companies ("OEICs").
These are 'open-ended' investments that are structured to invest in other companies (typically *Equities* and/or *Bonds*), the investment being split into a number of units. They allow diversification of *risk* by investing in a 'basket' of holdings (rather than being carrying the risk of being exposed to just one single investment holding). The underlying value of the assets can be calculated by the total number of units issued multiplied by the unit price less any transaction or management fees charged and any other associated costs. There are many different OEICs available, all investing in different assets such as *Equities*, *Property*, Bonds, etc. They are very similar in structure to *Unit Trusts*.

Personal Allowance
The *Personal Allowance* is the amount of income that can be earned each *tax year* before tax becomes payable (typically £11,000 in 2016/2017). Where a person earns excess of £100,000, this allowance reduces by £1 for every £2 excess.

Personal Equity Plans ("PEPs")
From April 2008, *Personal Equity Plans ("PEPs")* automatically became *Individual Savings Accounts ("ISAs")*.

Personal Pension Schemes
These are pension policies that are taken out through a pension company, into which contributions are made and which (at any time from age 55, but usually at retirement) can provide a pension income. These are invested in funds, which can be chosen according to an individual's attitude to *risk* and plans for the future. *Personal Pension Schemes* are set up on the basis of *Money Purchase Pension Schemes* or *Defined Contribution Pension Schemes*.

Phased Retirement
The process of taking regular tax-free cash payments, combined with an *annuity*, from a pension fund. Usually only effective with larger pensions, it offers the potential for higher levels of income than the purchase at outset of an annuity, since annuity incomes tend to increase with age. It also offers the potential for growth on any monies not already used for annuity purchase. However, *Phased Retirement* is not without *risk* since part of the funds not utilised to purchase an annuity income (known as the 'uncrystallised' funds) remain invested and are therefore subject to the rises and falls of stock markets.

Preference Shares
These are *shares* which entitle the holder to a fixed dividend, the payment of which takes priority over ordinary share *dividends*.

Premium
The amount of money paid (usually on a regular monthly basis) in order to maintain the protection afforded by a *life assurance* policy.

Probate
Probate is the process of obtaining legal authority to deal with the affairs of someone who has died so that the *Executors* can carry out the wishes and instructions contained within the *Will* in order to wind up the *estate*. It is a commonly held misconception that a solicitor is required to obtain Probate, but this is not the case.

Property

Property, used in the context of investment, tends to relate to 'commercial' property (offices, warehouses, etc.). Funds investing in property may be 'bricks and mortar' funds (where the property is physically owned by the investment company) or 'property share' funds (where the fund holds *shares* in a 'bricks and mortar' fund).

Public Limited Companies ("PLCs")

The legal designation of a company which offers *shares* to the general public. All companies listed on the Stock Exchange are PLCs and the 100 largest form the Financial Times Stock Exchange 100 ('FTSE-100').

Purchased Life Annuity

A *Purchased Life Annuity* is a regular payment made in exchange for a lump sum. Like an *annuity*, there are various options available, such as a spouse's annuity, escalation (increases in payment e.g. in line with the *Retail Prices Index ("RPI")*, or at a *fixed rate* e.g. 3%), guaranteed minimum terms e.g. five years and *Value Protection*. The more options chosen, the lower the guaranteed regular income available from lump sum. Unlike an annuity, however, the income from a Purchased Life Annuity is only partially taxable, this being known as the 'interest element'; the 'capital element' is tax-free since it is deemed to be a repayment of the capital used to purchase the annuity.

Repayment Mortgage

A *mortgage* is simply a loan secured on the value of the property. A '*repayment mortgage*' (sometimes called a 'capital and interest mortgage') is one that is repaid over an agreed term, the borrower making regular payments of both capital and interest over the period. At the start of the mortgage term, payments made mainly consist of interest with very little by way of capital repayment. However, towards the end of the term, payments are mainly capital with only a limited amount of interest (as a result of the reduced balance outstanding).

Retail Prices Index (“RPI”)

The *Retail Prices Index (“RPI”)* is a measure of inflation and measures the change in the cost of a ‘basket’ of retail goods and services and includes the costs of housing. It also differs from the *Consumer Price Index (“CPI”)* in its method of calculation.

Risk

Some investments carry more *risk* 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 money being lost. Riskier investments tend to offer potentially higher returns as compensation for the risks involved. However, even savings accounts are not without risk since they carry the risk of inflation eroding their long-term value; there is also the risk of default by the savings institution, although this risk is deemed to be quite low and is protected to some degree by the *Financial Services Compensation Scheme (“FSCS”)*.

Self Invested Personal Pensions (“SIPPs”)

Self Invested Personal Pensions (“SIPPs) are types of pension plan that allow an investor, or appointed fund manager, to make choices from a wider range of investments than those that are available via alternative *Personal Pension Schemes*. SIPPs allow for investment in commercial property, for instance, or in the *shares* of companies listed on the stock exchange.

Settlor

A *Settlor* is a person (or persons) who sets up a *Trust* for the benefit of one or more *Beneficiaries*.

Shares

Shares are issued by companies. Most investors are familiar with shares in very large multinational companies (*Public Limited Companies (“PLCs”)*, these being available to purchase by the general public, although private companies also issue shares.

Socially Responsible Investments ("SRIs")
See *Ethical Investments*.

Stakeholder Pension Schemes
Stakeholder Pension Schemes are *Personal Pension Schemes* in their simplest form. Stakeholder Pension Schemes allow for a minimum investment of £20 per month and offer a range of funds in which to invest – although this range is often quite limited due to the low-cost structure of the arrangements. There must be no penalties for transferring away from the fund. Some employers offer access to Stakeholder Pension Schemes.

State Earnings-Related Pension Schemes ("SERPS")
See *State Second Pension*.

State Pension
The basic *State Pension* is paid by the Government and is based on an individual's *National Insurance Contributions ("NIC")* record and varies depending upon the level of contributions made. Employees may also qualify for the additional *State Second Pension* based on earnings and NIC record.

State Second Pension
The *State Second Pension* is an additional pension that is payable in addition to the *State Pension*. It was called the *State Earnings-Related Pension Schemes ("SERPS")* until 2002. Self-employed people are not entitled to a State Second Pension.

Suitability Report
A *Suitability Report* is provided by *Independent Financial Advisers ("IFAs")* to explain the basis of, and reasons for, any recommendation(s) made. They are likely to be provided with a Personalised Illustration in respect of any proposed transaction, along with *Key Features Documents ("KFDs")* and/or *Key Investor Information Documents ("KIIDs")*.

Tax Year
The *tax year* runs from 06 April to 05 April each year. For instance, the 2016/2017 tax year runs from 06 April 2016 to 05 April 2017.

Temporary Annuity
Like an *annuity*, these pay a guaranteed regular (usually monthly) income but for a predetermined fixed term, rather than for life, and usually return a predetermined fixed amount of capital at the end of the term.

Trust
A *Trust* is a legal instrument by which the *Settlor* gives to the *Trustees* an investment to be held for the benefit of one or more *Beneficiaries*. There are numerous types of Trust such as Absolute (or "Bare") Trusts, Discounted Gift Trusts, Discretionary Trusts and Loan Trusts, to name but a few; there are too many details to explain in a brief Glossary such as this and greater detail relating to any Trust recommended would be provided in a *Suitability Report*.

Trustees
Trustees are persons appointed by the *Settlor* to a *Trust* to administer an investment on behalf of the *Beneficiaries*. They are the policy owners but do not have any right to benefit from the Trust (unless also named as beneficiaries).

Unit Trusts
Unit Trusts are a 'basket' of funds such as *Equities*, Bo*nds*, *Property*, etc. that constitute a fund that is divided into 'units' and sold to investors. For instance, a fund that has a total value of £1 million (ignoring charges) and has one million units in issue would be priced at £1.00 per unit. If the total value increased to £1.1 million and there were no other changes, the price of each unit would rise to £1.10. There are many different Unit Trusts available for investment, all investing in different assets, and are very similar in structure to *Open-Ended Investment Companies ("OEICs")*.

Unsecured Pension
An *Unsecured Pension* is a way of taking an income from a pension fund whilst leaving the rest of the fund invested. It does involve incurring some *risk* to the value of the pension fund, since funds remain invested. There are various types of unsecured pension available, some options being *Income Withdrawal ("Drawdown")*, *Phased Retirement* and a *Temporary Annuity*.

Value Protection
When purchasing an *annuity*, *Value Protection* can ensure that the total income payments made are at least equal to the amount invested.

Will
A *Will* is a legal instrument by which the value of an individual's *estate* is passed to the *Executors* for the benefit of one or more *Beneficiaries*.

Whole of Life Assurance
A type of *life assurance* that provides a lump sum benefit in the event of the death of the life assured. It is a true assurance (rather than insurance) policy since there is certainty that the life assured will die at some point in the future. Insurance covers things that <u>might</u> happen; assurance covers things that <u>will</u> happen. The benefit is guaranteed to remain in force for the lifetime of the life assured provided *premiums* are maintained. The level of cover remains the same over the life of the policy, but premiums may increase as the life assured ages. Sometimes used in conjunction with *estate planning* to ensure payment of a known *Inheritance Tax ("IHT")* bill. The policy will be cancelled by the insurer if premiums are not maintained but does not expire other than on the death of the life assured.

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

Ribble Wealth Management Limited

Professionalism . Integrity . Trust

Ribble Wealth Management Limited
Ribble House
11 Trident Park
Trident Way
BLACKBURN
Lancashire
BB1 3NU

Telephone: 01254 84 64 04

Fax: 01254 84 64 05

Web: www.ribblewealth.com

Registered in England
Company Registration Number: 9482998

Authorised and regulated by the Financial Conduct Authority