FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

Glossary

Here is a short glossary of terms you will encounter when you start thinking about your financial situation. Ask your financial planner to give you more explanation on these or any others you may be unsure about.

A

Asset
Item of value, such as cash, investments or property.

Australian Securities and Investments Commission (ASIC)
The Australian Government regulating body that enforces and regulates company and financial services laws to protect consumers, investors and creditors.

Australian Taxation Office (ATO)
The ATO is the Government's principal revenue collection agency, and is part of the Treasurer's portfolio. The ATO's role is to manage and shape tax, excise and superannuation systems that fund services for Australians.

B

Bankruptcy
The legal process in which the assets and liabilities of a person deeply in debt are placed with a receiver. The receiver takes control of their finances and helps them clear their outstanding debts. The process may restrict the person's financial dealings in the future.

Bond
An investment instrument issued by governments and companies which pays a regular and fixed interest amount for the term of the investment. The invested funds (principal) are repaid at the end of the term (maturity).

Budget
A plan for spending and saving money based on an individual's goals over a certain period of time.

C

Capital gain
The difference between the purchase price and the selling price of an investment.

Cash flow
A measure of the money a person receives and spends.

Cash management
How a person manages money (cash) coming in and going out.

Compounding
Earning interest on interest previously earned.

Cooling-off period
A period during which purchasers of a good or service have the opportunity of deciding not to proceed with a transaction. If this occurs then any money paid out for the transaction should be refunded.

Credit
An amount of money lent from one person or entity (such as a financial institution) to another, based on the expectation and/or agreement that the money will be repaid with interest.

Credit rating
A measure of a person's ability to repay debt or credit.

D

Debenture
An investment instrument issued by companies which pays a regular and fixed interest amount for the term of the investment. The invested funds (principal) are repaid at the end of the term (maturity).

Debt
The amount a person or entity (such as a business) owes to lenders.
Diversification. Spreading invested amounts among several different savings or investments to reduce risk.

Dividend
The payment to shareholders in a company of their portion of a company's distributed profits. The portion is based on relative shareholdings.

E
Employee benefits
Additional benefits received by someone from their employer, such as bonuses and reimbursement for study.

Equity
The value of an asset after deducting any money owing on it.

Excess
The amount of an insurance claim which you are required to pay before the insurer becomes liable to pay on the claim. This amount is specified in the insurance policy.

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F

Financial planning
The process a financial planner follows to understand each client's different needs and financial objectives and to recommend an appropriate strategy. There is an established six step financial planning process which all professional advisers follow with every new client:

1. Gather financial information about the client
2. Identify financial and lifestyle goals
3. Identify any financial issues
4. Prepare a financial plan
5. Implement the plan
6. Review and revise the plan at regular intervals, or when circumstances change.

Financial Planning Association
The Financial Planning Association of Australia (FPA) is the leading professional body for the financial planning profession, and represents approximately 12,000 individuals and businesses. Over 8,000 of its 12,000 members are practising financial planners. The FPA and its members strive to improve the financial wellbeing of all Australians.

Financial year
Also known as the income year, runs from 1 July through to 30 June.

Fixed expenses
Expenses that remain the same, week after week, or month after month.

Fixed interest rate
Where interest is paid (received) at a constant rate over the term of a loan (investment).

G

Gross income
The total amount of income earned (from wages or a salary) before any deductions including tax.

I

Income
Any money a person receives.

Inflation
An increase in the price of goods and services. This means that prices generally rise.

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Insurance
Financial protection against financial loss; an arrangement where an insurance company agrees to pay an amount of money to the insurance policy holder if a defined event occurs, in exchange for an insurance premium being paid.

Insurance premium
The payment made to an insurance company in exchange for protection or financial help if (agreed) circumstances or events occur.

Interest
Payment for the use of money; the return earned on invested funds; the amount a borrower pays to a lender for the use of the borrowed money.

Interest free period
The time allowed, usually 55 days, in which new credit card purchases can be paid off without being charged interest, provided there are no unpaid amounts on the card from previous payment periods.

Interest rate
The relationship between the amount of money borrowed or lent and the money paid in return for the use of that money. Usually expressed as a percentage per year.

Investment
An asset acquired for the purpose of producing or generating income or capital gains for its owner.

J
Joint account
An account with a financial institution which is in the name of more than one person. A joint account is able to be operated independently by those persons.

L
Leasing
An agreement under which the owner of property allows use of that property for a specified period of time in return for set periodic payments.

Liabilities
Debts or financial obligations.

Lifestyle changes
Many people don't realise what a difference a change in their personal circumstances can make to their financial situation. As you move through life each change brings a different set of needs which may impact your overall planning objectives, insurance needs, cash flow requirements and so on. Think of these for a start: getting married, having children, putting the kids through school, receiving an inheritance, having a

debilitating illness, losing a partner, downsizing home when children move out. Each has its own effect on your financial outlook. A professional financial adviser will take your lifestyle now into account when making your plan and you should review your financial plan whenever a major lifestyle change occurs.

Loan term
The length of time covered by a loan.

M
Managed fund
An investment that pools money from several investors and uses it to buy a particular type of investment, such as shares.

Marginal Tax Rates (MTR)
Australia 's sliding tax rates, ranging from 0% to 47% of your salary depending on the salary amount.

Mortgage
A legal agreement under which you take out a loan and use the property being purchased as security for that loan.

N
Net income
The amount of someone's income that they can use or spend; the amount remaining once tax and payroll deductions are made.

P
Pay As You Go (PAYG)
The system where employers automatically deduct tax from each employee's gross pay each pay period.

PAYG Summary
The summary sent to employees by their employer(s) at the end of each financial year; outlines the total paid to the employee and the amount of tax that was taken out.

Payroll deductions
Amounts subtracted from gross income for items like employee benefits.

Premium
The price charged by an insurance company for providing insurance cover.

R
Rate of return
How quickly money in a savings or investment account grows.

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Retirement planning
As Australia 's population ages, there will be less money in public coffers to provide pensions in the future. Retirement planning takes into consideration the amount of money you will need to live the life you have in mind. It's not just a plan to create the wealth you will require, but also ways to manage your funds into retirement, with the right pensions or other strategies to make sure that your income is properly managed. Retirement planning can happen at any age. Starting planning for retirement early allows you to take advantage of the miracle of compound interest, where you savings earn interest on the interest!

Return
The amount received or earned on money which has been invested.
Risk. The chance that you may not receive the returns you are expecting or that an unfortunate event will occur.

Risk management
The various ways or strategies used to manage potential personal or financial loss.

S
Salary sacrifice
Part of your before-tax salary can sometimes be 'salary sacrificed' straight into superannuation – which means it is taxed at a beneficial rate (15%), and paid before income tax (lowering your taxable income). Many people find this a valuable way to save for retirement so ask your employer if it is available to you.

Share
An investment that represents ownership in a company or corporation.

Superannuation
Money that you and your employers put aside in a superannuation fund during your working life to use when you retire.

Superannuation guarantee
An Australian Government requirement that employers pay a minimum amount, equivalent to a certain percentage of your earnings, into your superannuation fund or retirement savings account.

Super splitting
Legislation now allows the tax-effective savings of superannuation from one partner to be used to bolster their spouse's super fund account. This is particularly effective for those who are approaching their Reasonable Benefit Limit (RBL) – it allows for two RBL's in a partnership, no matter who is earning most money. Ask your financial adviser if this course of action is appropriate for you.

T
Taxes

Fees placed on income, property or goods which is collected by the government to support costs and programs.

Tax file number (TFN)
The personal tax identification number supplied to you by the ATO when you begin working and paying tax.

V
Variable expenses
Expenses that are not fixed, and can change.

Variable interest rate
Where interest is paid (received) at a variable rate over the term of a loan (investment).

W
Wealth creation
An umbrella term used to mean the strategies you put in place to create a better financial situation for yourself in the future – these can include superannuation, investment, property ownership and a raft of other ways to achieve your end goals, including making sure you have an appropriate level of insurance. For example salary sacrifice into super (see above) is a very tax-efficient way to save. In some cases borrowing to invest can allow your interest to be tax-deductible, and there may be other efficiencies like paying interest in advance. Your financial planner will be able to let you know of the most tax-efficient ways to save and invest.