Glossary of Terms

Term	Description
10 year rule	If an **Investment Bond** is held for over 10 years, the entire investment including additional contributions made during this period will be tax free subject to the **125% rule**. If the investment is held for less than 10 years, a portion of the earnings or all of the earnings will need to be included in your assessable income, with a non-refundable 30% tax offset of the assessable amount.
125% rule	Additional contributions may be made into an **Investment Bond** each year. Provided the contributions do not exceed 125% of the previous year's contribution, it will be considered part of the initial investment. This means each additional contribution does not need to be invested for the full 10 years to receive full tax benefits associated to **Investment Bonds**. If contributions made to the investment bond exceed 125% of the previous year's investment, the start date of the 10 year period will reset to the start of the investment year in which the excess contributions are made.
Account Based Pension	**Account Based Pensions** may be purchased using superannuation savings when a **condition of release** has been met. Investment earnings in **Account Based Pensions**, other than Transition to Retirement Pensions, are tax free. Tax penalties apply if the amount or amounts transferred into Account Based Pensions and any other retirement phase income streams exceeds the Transfer Balance Cap, currently $1.6 million. This limit is periodically indexed. You are also required to drawdown a regular income (pension) which will have varying personal tax treatments depending on your age. The pension amount will also have to pay at least a minimum rate, which varies with age.
Administration Fee	**Administration Fees** may be charged by the product provider for administration costs of maintaining your account and providing administrative services.
Age Pension	The **Age Pension** is income support payments for people who have reached age pension age (and satisfied residency requirements). The pension payable depends on the **Means Test** (**Income Test** and **Assets Test**).
Agreed Value	**Income protection** policies can be purchased on an **Agreed Value** or **Indemnity Value** basis. An **Agreed Value** policy pays a monthly benefit based on your earnings at the time of application. Monthly benefits are generally not reduced even if there is a subsequent change in earnings.
Allocated Pension	**Account Based Pensions** were previously referred to as **Allocated Pensions**.
Annuity	An **Annuity** is an investment product that pays a guaranteed income for a specified **investment term** or for the life of a person. Annuities may be purchased either using superannuation savings or using non-superannuation funds.
Any Occupation	**Total and Permanent Disability** cover can be purchased on an **Any Occupation** or **Own Occupation** basis. For Any Occupation, the Insurer will assess your likely ability to work again based not only on your own occupation, but also any occupation that you are reasonably suited to by way of education, training or experience.

Term	Description
Asset Allocation	Investments can be held in a number of different types of assets. **Asset Allocation** refers to the proportion of funds that are invested in each **Asset Class**.
Asset Class	Refers to types of assets. The various **asset classes** that can be invested in may include, but are not limited to: • cash, such as bank accounts and term deposits; • fixed interest, such as investment bonds and debt securities; • Australian shares, such as directly-held NAB shares or a managed fund which invests in Australian companies; • international shares, direct, or through a managed fund investing in overseas companies • property, such as an investment property or a managed fund investing in property; • alternative assets, such as infrastructure assets or derivatives (options and futures etc).
Assets Test	The **Assets Test** along with the **Income Test** determines the value for which a person is eligible. Using the outcomes from the two tests, the lower amount will be the eligible pension payment. The higher your asset levels are above a particular threshold (depending on factors such as whether you own a home or not, or are single or in a couple), the lower the pension payment amounts you would be entitled to.
Benefit Period	A feature of **Income Protection** cover, referring to the maximum period for which the monthly benefit will be paid if the insured remains totally or partially unable to work because of injury or illness.
Buy/Sell Spreads	When purchasing/redeeming units of a managed fund, there is generally a difference in the ‘issue’ and ‘redeem’ value of each unit. This is referred to as the **Buy/Sell Spread**.
Capital Gain	A **Capital Gain** is the growth in the value of an asset (e.g. shares or property) and is realised when an investor sells as asset for an amount exceeding the purchase price.
Capital Protection	Some investments offer **Capital Protection**. This generally means that the value of the initial amount invested is guaranteed if the investment is held to maturity.
Capital Secure	A **Capital Secure** investment is one which is not considered **Volatile**. However, it is different from a **Capital Protected** investment in that the initial investment is not guaranteed and the value of the investment may decrease.
Carer Payment	To qualify for the **Carer Payment**, a person must be personally providing constant care to a disabled person (meeting specific requirements) in the disabled person’s private residence. The pension amount a customer is eligible for also depends on the Means Test (**Income Test** and **Assets Test**).
Cash Flow	**Cash Flow** is calculated by subtracting expenses from total after tax income. Total income may include salary, investment returns, social security payments etc. Total expenses may include living expenses, insurance premiums, loan repayments etc. A positive (surplus) cash flow is when total income exceeds total expenses. A cash flow is negative (in deficit) when total income is less than total expenses.
Centrelink	**Centrelink** is a program offered by the Department of Human Services providing social security payments and services with the purpose of assisting retirees, people with disability and others to meeting daily living costs. The main pension payments include the **Age Pension**, **Disability Support Pension** and **Carer Payments**.
Client Profile	A **Client Profile** is a document which captures information about a customer’s needs, objectives and relevant personal circumstances. This information is used by an adviser to provide personal financial advice. This may also be known as a ‘Fact Find’.

Term	Description
Concessional Contribution	**Concessional Contributions** are contributions that are generally tax deductible to the contributor. These include contributions such as superannuation guarantee, salary sacrifice and personal deductible contributions. **Concessional Contributions** form part of the taxable component of your superannuation benefit. There is an annual **Concessional Contribution** cap which limits the amount that can be contributed to super in this way. Exceeding this amount will generally incur a tax penalty.
Condition of Release	A **Condition of Release** is a term for a condition that must be met in order to release certain superannuation benefits. An example of a condition of release is reaching age 65. At age 65 a member of a superannuation fund is generally able to access their superannuation benefits without any restrictions.
Contribution Caps	There are limits (or caps) to the amounts that can be contributed to superannuation, with a **Concessional Contribution** cap and a **Non-Concessional contribution** cap. Exceeding these caps will generally incur a tax penalty.
Corporate Trustee	Where an **SMSF** is structured using a **Corporate Trustee**, a company is acting as trustee for the fund. The **SMSF** must have between one and four members. Subject to some exceptions, each member of the fund must be a director of the corporate trustee, and each director of the corporate trustee must be a member of the fund. Further restrictions apply where unless two members of the fund are related whereby no member is allowed to be an employee the other.
Critical Illness or Trauma Insurance	Insurance which provides a lump sum payment on diagnosis of a particular critical condition as defined in the policy and Product Disclosure Statement. This is also known as **Trauma Insurance**.
Customer or Client File	A **Customer or Client File** includes the documents retained by an adviser in relation to the advice and services they provided. This may include, but is not limited to: • **Client Profile** • copies of personal advice documents such as **Statements of Advice**, **Statements of Additional Advice**, or **Records of Advice** • adviser **File Notes** • correspondence between adviser and customer (such as emails), and • copies of application forms.
Defensive Assets	**Defensive Assets** include investments which fall into the cash and fixed interest **Asset Classes**. These typically have a lower risk of capital loss, but generally produce lower investment returns than **Growth Assets** over the longer term.
Department of Veteran Affairs (DVA)	The **Department of Veteran Affairs** provides a range of payments and services to Australian veterans. The **Means Test** that applies to DVA entitlements are generally significantly different to those applied by **Centrelink**.
Direct Equities	**Direct Equities** refers to a portfolio of Australian shares held directly. This is as opposed to having exposure Australian shares through a managed fund or other investment vehicles.
Disability Support Pension (DSP)	To qualify for the **Disability Support Pension**, a person should be between age 15 and pension age, meet the residency requirements and satisfy **Centrelink’s** definition of disability. The pension amount a customer is eligible for also depends on the Means Test (**Income Test** and **Assets Test**).

Term	Description
Diversification	**Diversification** refers to spreading investments across a range of different assets so 'you don't have all your eggs in one basket'. The idea is that assets perform differently to others under certain circumstances. By holding a combination of these assets, you therefore reduce the risk that would be associated with holding only one of these assets. Diversification can be implemented by investing across asset classes, markets, regions and management styles.
File Note	A **File Note** may be used by an adviser to record interactions with a customer, or specific actions taken by an adviser.
FOFA Reforms	On 1 July 2013, the Future of Financial Advice (FOFA) reforms introduced a number of new obligations for advisers including a requirement to act in their customers best interests. The reforms impacted the key considerations for determining whether the advice was appropriate for certain types of advice. This includes advice provided in relation to insurance, insurance replacement and superannuation replacement. Where you've received advice in relation to these areas, we'll specify the key considerations for determining whether the advice was appropriate for you, with regards to the specific requirements that applied at the time.
Gearing	**Gearing** simply means borrowing money to invest. **Gearing** may be used to accelerate the process of wealth creation by allowing an investor to make a larger investment than would otherwise be possible. The borrowed money can be invested in a number of ways including direct shares, property and managed investments.
Growth Assets	**Growth Assets** comprise of investments into Australian shares, international shares, property and alternative **Asset Classes**. These assets typically have a greater risk of falling in value over the short term, when compared with **Defensive Assets**, but generally produce a greater investment return over the longer term.
Home Equity Loan	A **Home Equity** Loan is a type of loan where the borrower uses the equity in their home as **Security** for the loan. The repayment obligations will vary depending on the provider.
Income Protection (IP) or Salary Continuance Cover	This insurance provides a monthly benefit for a predetermined and agreed **Benefit Period** if the insured is unable to work, beyond the specified **Waiting Period**, because of illness or injury.
Income Test	The **Income Test** along with the **Assets Test** determines the value a person is eligible for. Using the outcomes from the two tests, the lower amount will be the eligible pension payment. If the income test determines the outcome, the higher your income, above a particular threshold (depending on factors such as whether you are single or in a couple), the lower the pension you would be entitled to.
Increasing Claims	This is an option available with some **Income Protection** policies, allowing claim payments received to increase annually (either by an agreed fixed percentage or by the rate of inflation).
Indemnity Cover	**Income Protection** policies can be purchased on an **Agreed Value** or **Indemnity** basis. An Indemnity policy's monthly benefit is based on the insured's earnings before disability, not earnings at time of application. As such, the monthly benefit may be reduced if earnings have decreased over time.
Individual Trustee	An **SMSF** may be structured with **Individual Trustees**. Where structured with **Individual Trustees**, the fund will require at least two members. Each member of the fund must be a trustee and each trustee must be a member. Also, no member is allowed to be an 'employee' of another member unless related.

Term	Description
Initial Advice Fee	This is a one-off fee that is paid at the time of advice. This may be charged for the preparation of the advice and/or for the implementation of the advice. An **Initial Advice Fee** may be charged as a flat dollar fee or as a percentage of the balance of your investment.
Insurance Bond	**Insurance Bonds** are another term for **Investment Bonds**.
Insurance Commission	**Insurance Commission** is a payment made by the insurer to the adviser on implementation of insurance policies. The commission is paid from the insurance premiums charged to you. An upfront commission and ongoing commission are generally applicable.
Insurance Exclusion	**Insurance Exclusion** refers to an event or medical condition specifically excluded from a policy and which will not be covered by the policy.
Insurance Loading	**Insurance Loading** refers to an amount added to a standard insurance premium. This may occur where the insured has a pre- existing medical condition or participates in a hazardous pastime or employment, and the insurer considers this to increase the likelihood of a claim.
Internal Gearing	**Internal Gearing** refers to an investment, such as a **Managed Fund**, in which the fund manager borrows funds on behalf of investors in order to increase the amount that is available to be invested.
Investment Bond	An **Investment Bond** is technically a life insurance policy. It is a long term investment with features similar to a managed fund. Investment bonds are tax paid investments meaning when earnings on the investments are received by the insurance company, they are taxed at the corporate tax rate (30%) before being reinvested in the bond. This can make **Investment Bonds** a tax effective long term investment for those with a **marginal tax rate** higher than 30%.
Investment Strategy	An **Investment Strategy** is a detailed financial plan made by the Trustees of an **SMSF** based on the current and future financial needs of each member of the fund and the amount of risk the fund is prepared to take. Typically, the **Investment Strategy** specifies what **asset classes** the **SMSF** may invest in and gives the proportion, within a range, of the fund to be invested in each asset.
Investment Term	The **Investment Term** of an **annuity** is the set period of time your funds are invested and when the guaranteed regular income is expected to cease. The set period could be either for a lifetime or for a fixed number of years. Income payments can be made monthly, quarterly, half-yearly or yearly. Where the set period is for a lifetime, the product would be called a lifetime annuity. Where the set period is for a fixed number of years, the product would be called a term annuity.
Level Premium	Insurance may be purchased with level or **Stepped Premiums**. **Level Premiums** are based on the sex and age of the insured at the start date of the insurance. The initial premium generally exceeds **Stepped Premiums** for an equivalent policy, but remain the same for the period of the policy. Premiums will generally only vary if there is change to the insurer's premium rates or if the sum insured is indexed.
Life Cover Buy Back	This feature can apply either as an extra cost option or a built in product feature, where **Total and Permanent Disability (TPD)** or **Trauma** is linked with **Life Insurance**. Ordinarily when a TPD or Trauma benefit is paid, it reduces the amount of linked Life Insurance by the same amount. However, this feature will generally enable the policy owner to restore the Life Insurance amount up to the original amount, without providing additional evidence of health, occupation or pursuits. In some cases, a **Life Cover Buy Back** Option period can be reduced at extra cost, meaning for example the life insured only has to survive 14 days rather than 12 months before the life cover is restored. Additionally, sometimes the restoration of the life Insurance is automatic and sometimes it must be applied for.

Term	Description
Life Insurance	**Life Insurance** provides a lump sum payment in the event of the insured's death or terminal illness (depending on the terms of the policy).
Limited Recourse Borrowing Arrangement (LRBA)	SMSF loans are generally **Limited Recourse Borrowing Arrangements**. That is, should the loan default, the lender is limited to seeking compensation via the specific asset bought with the loan.
Line of Credit (LOC) Loan	This is a pre-approved loan against an existing asset which may be used (drawn down) as **Security** as needed. The loan is commonly secured against an asset such as a property.
Loan to Valuation Ratio (LVR)	This ratio compares the proportion of a loan with the value of an asset. The **LVR** is usually expressed as a percentage.
Managed Fund	A **Managed Fund** is a type of investment where a professional manager invests the pooled savings of individual investors into a single **Asset Class** or a range of asset classes on the individual's behalf. The income is paid as distributions periodically which usually can be re-invested into the fund.
Management Expense Ratio (MER)	**Management Expense Ratio (MER)** is a percentage based fee charged out of your investments (managed funds) and represents the cost of running the managed fund. The MER will vary based on the implemented investments.
Marginal Tax Rate	Your **Marginal Tax Rate** is the highest tax rate you will pay on your income for a financial year.
Margin Call	A **Margin Call** is a notice from the lender requiring the borrower/investor to provide additional funds to re-establish the lender's minimum **LVR**. This is usually done by lodging additional funds as **Security** or reducing the loan. Typically, a response to a margin call is required within a very short time frame a few days or even 24 hours.
Margin Loan	A **Margin Loan** requires the borrower to contribute equity which will be used as **Security** for the borrowing. The lending institution will lend a portion of the value of specific securities or managed funds, usually between 40 and 80 per cent. If the margin loan outstanding is greater than the lender permits, a **Margin Call** will be made.
Maturity Date	**Maturity Date** is the specified date at which the outstanding principal and any remaining interest are due to be paid back to the investor.
Means Test	The **Means Test** collectively refers to the **Income Test** and **Assets Test**.
Multi-Sector Managed Funds	**Multi-Sector Managed Funds** invest the pooled savings of individual investors into a range of **Asset Classes**.
Non-Concessional Contribution	**Non-Concessional Contributions** include contributions to a superannuation fund such as personal after-tax contributions and spouse contributions. These contributions are not taxed in the fund and form part of the tax-free component of your superannuation benefit. The **Non-Concessional Contribution** cap restricts the amount that may be contributed in this way, and exceeding the limit will generally incur a significant tax penalty.
Ongoing Advice Fee	An ongoing fee that is paid to the adviser as part of an **Ongoing Service Agreement**. This fee is for the provision of ongoing services such as annual reviews. **Ongoing Advice Fees** may be charged as a flat dollar fee or as a percentage of the balance of your investment. It is generally charged annually.
Ongoing Service Agreement	When you agree to an **Ongoing Service Agreement**, you are generally entitled to ongoing advice/review and other services (such as newsletters) annually.

Term	Description
Own Occupation	**Total and Permanent Disability** cover may be purchased on an **Any Occupation** or **Own Occupation** basis. An **Own Occupation** policy pays a lump sum benefit in the event that the permanent disability prevents the insured from working in their own occupation. **Own Occupation** provides a more liberal definition of disability, because even if you can work in another occupation, you may still be eligible to receive disability benefits. This is defined further in the policy and the relevant **Product Disclosure Statement**.
Pensioner Concession Card	The **Pensioner Concession Card** entitles the cardholder to reduced costs on items such as medicine, public transport, and water/energy rates, amongst other benefits. Those receiving a pension from **Centrelink** or **DVA** or are receiving other allowances may be eligible to receive a **Pensioner Concession Card**.
Premium	The cost of the insurance cover paid to an insurance company periodically to maintain an insurance policy.
Preservation Age	**Preservation Age** is a restriction that prevents members accessing their superannuation benefits until they have met a **condition of release**. **Preservation Age** is generally between age 55 and age 60 and is dependent upon your birth date.
Product Disclosure Statement (PDS)	A **PDS** is a document which contains key information about an investment or insurance policy. This includes information such as the benefits, risks and costs of purchasing the investment or insurance policy.
Record of Advice (ROA)	A **Record of Advice** is sometimes provided to a customer after a **Statement of Advice** has been issued. It generally includes recommendations that take into account the earlier advice provided in the **Statement of Advice** with a variation of advice that is not significant.
Residual Capital Value (RCV)	When purchasing a term annuity, an investor elects the proportion of capital they would like returned to them at the end of the **investment term**. Any capital left at the end of an **annuity** term is known as the Residual Capital Value' (RCV). A 100% RCV annuity returns the full value of the invested capital at the end of the investment term. A 0% RCV annuity does not return any of the invested capital at the end of the **investment term**. Generally, the higher the RCV selected on an **annuity**, the lower the guaranteed income it provides.
Reverse Mortgage	A **Reverse Mortgage** is a type of home loan designed for older homeowners. It allows you to borrow money using the equity in your home as security and requires no monthly mortgage repayments. Interest accumulates and compounds. The loan can generally be taken as a lump sum, a regular income stream, a line of credit or a combination of these options. It should be noted that borrowers are still responsible for property taxes and homeowner's insurances. **Reverse Mortgages** are generally used to assist with living expenses for older homeowners, allowing them to draw on the equity of their homes if needed. They are not designed for investment purposes.
Risk Profile	A **Risk Profile** evaluates some aspects of an investor's willingness and ability to take risk. It usually consists of a set of questions and may be part of the **Client Profile**. It is used by an adviser when making investment recommendations.
Salary Sacrifice	**Salary Sacrifice** is an arrangement between an employee and their employer to pay for specific goods or services from pre-tax income. When contributions to superannuation are made using a salary sacrifice arrangement, the contributions are regarded as **Concessional Contributions**.
Security (for a loan)	**Security** is an asset used to protect the lender in the event that the borrower cannot repay a specific loan. In such an event, the lender can take possession of the asset and sell it in order to recover the outstanding balance as well as any costs incurred to sell the asset.

Term	Description
Self-Managed Superannuation Fund (SMSF)	An **SMSF** is a superannuation trust structure that allows individuals, who are the members of the fund, to take full responsibility for managing their superannuation balances. The members of an **SMSF** are also, generally, the trustees and are responsible for complying with various tax and superannuation laws. An **SMSF** must have between one and four members (proposed to be six from 1 July 2019). No member is allowed to be an 'employee' of another member unless related.
Statement of Additional Advice (SOAA)	This advice document is sometimes provided to a customer after a **Statement of Advice** has been issued. It generally includes additional recommendations that take into account the earlier advice provided in the **Statement of Advice**.
Statement of Advice (SOA)	This advice document captures an adviser's recommendations, including the benefits, risks, significant consequences and costs of implementing the advice. A **Statement of Advice** may be provided when existing advice is reviewed, or new advice is provided.
Stepped Premium	Insurance can be purchased with a **Level Premium** or **Stepped Premium**. A Stepped Premium is recalculated yearly based on age to reflect the increasing likelihood of claim. It generally increases as the insured becomes older.
Structured Product	**Structured Products** are pre-packaged investment strategies. The investment strategies may be based on a single security, a basket of securities, options, indices, commodities, debt issuance or foreign currencies, and derivatives. **Structured Products** offer investors exposure to a range of Asset Classes combined with features such as **Internal Gearing** and **Capital Protection**. **Structured products** may offer capital protection (full or partial) through various different mechanics depending on the product. It is noted that each **Structured Product** can be significantly different from each other.
Total and Permanent Disability (TPD) Insurance	**Total and Permanent Disability insurance** pays a lump sum benefit in the event that the insured suffers a total and permanent disability preventing them from working again. Refer to the Policy and the **Product Disclosure Statement** for more information.
Trauma Reinstatement	This feature enables the insured to restore **Trauma cover** by the same amount as the trauma benefit paid within a time frame that is specified by the insurer, without providing further medical evidence. However, the original restored **Trauma cover** will not include the illness (or related illnesses) that resulted in the initial claim benefit payment. Note that **Trauma Cover** and **Critical Illness** refer to the same product.
Trust Deed (SMSF)	A **trust deed** is a legal document that sets out the rules for establishing and operating your **SMSF**. It includes such things as the fund's objectives, investment strategy, who can be a member, and whether benefits can be paid as a lump sum or income stream. As an **SMSF** is a **trust structure**, a **trust deed** is required when establishing the **SMSF**. The trust deed is required to be reviewed regularly and updated as necessary.
Trust Structure	A **Trust** is an obligation imposed on a person (trustee) to hold property or assets for the benefit of the trust's members (beneficiaries). Trusts may be further categorised into various different types (e.g. **SMSF** trust).
Volatility	The **Volatility** of an asset is the measure of fluctuation that can be expected in both the price of the asset, and the income received. The price of a volatile asset, such as shares, may go both up and down over a short period of time.
Waiting Period	A **Waiting Period** means a benefit won't be paid straight after a claimable event happens. Once an event occurs, a certain period of time must pass before a claim can be made. Both **Income Protection** and **Total and Permanent Disability** claims may have a **Waiting Period**. In **Income Protection** there is a choice of **Waiting Periods** – longer Waiting Periods cost less than shorter **Waiting Periods**.