

Glossary

A

Accumulation fund

A superannuation fund that operates in a similar way to a bank account. Fund members are entitled to the total of employer and employee contributions credited to their accounts plus the investment earnings (interest) on these contributions less any taxes and other expenses. Opposite of defined benefit fund.

See also: [defined benefit fund](#), [superannuation fund](#)

Adjusted Taxable Income (ATI)

This term is used in relation to the superannuation surcharge. It includes most income that is shown on your personal tax return plus all employer and deductible personal superannuation contributions and also includes part of employer ex-gratia amounts paid on termination of employment and rolled over.

AFSL

See [Australian Financial Services Licence](#).

Age Pension

Income provided by the Government to eligible Australian men and women at or over pension age. Entitlement to the Age Pension is subject to both the assets and income tests.

See also: [assets and income tests](#)

All Ordinaries Index

An index that tracks the price of share movements in the major listed companies on the Australian Stock Exchange (ASX). For example, if the majority of share prices increase, the All Ordinaries index may be positive.

See also: [index](#), [S&P/ASX 200](#)

Allocated pension/annuity

A pension or annuity providing an income stream that is not guaranteed, but is flexible within minimum and maximum levels specified by Government regulation. Allocated pensions and annuities allow access to capital and, if any capital remains on the death of both the investor and their automatic reversionary beneficiary, the remaining capital is transferred to the estate or dependants of the deceased. Investment performance and returns are not guaranteed and investment risk is borne by the investor and not the provider of the allocated pension or annuity. Allocated pensions or annuities can have tax and Social Security advantages.

See also: [annuity or immediate annuity](#), [assets and income tests](#), [complying pension or annuity](#), [reversionary beneficiary or annuitant](#), [term allocated pension](#)

Annuity or immediate annuity

The investment of a lump sum amount, usually with a life insurance company, in return for a predetermined income stream.

Approved Deposit Fund (ADF)

Introduced in 1984 as an 'approved' fund for receipt of superannuation lump sum payments. Due to subsequent legislative changes, superannuation funds can accept lump sum or rollovers so ADFs have become less relevant.

APRA

See [Australian Prudential Regulation Authority](#).

Asset allocation

The way money in an investment portfolio is divided between the asset classes, eg. Australian shares, international shares, property, fixed interest and cash.

See also: [asset classes](#)

Asset class

Major groupings into which investments are categorised based on common features. Well-known examples include: Australian shares, international shares, property, fixed interest and cash. Often within these asset classes other sub-groupings are identified, for example within share-based investments, industrial shares or even transport sector shares might be regarded as different asset classes.

Assets and income tests

An individual's entitlement to the Government Age Pension is based on two tests. The assets test is a test on the assets of the individual or couple. If their assets are over a certain level, they will not be entitled to a full or reduced Age Pension.

Similarly, an income test is also applicable. If their income exceeds a certain level, pension entitlements will cease. If income is below this level, they may receive a full or reduced Age Pension.

Both the income test and assets test are applied to an individual or a couple. Their Age Pension is based on the lowest pension entitlement calculated after the two tests have been applied.

See also: [Age pension](#)

ASX

See [Australian Stock Exchange](#).

ATI

See [Adjusted taxable income](#).

ATO

See [Australian Taxation Office](#).

Australian Financial Services Licence (AFSL)

A license issued by the Australian Securities and Investments Commission which permits the issuing of a financial product or giving of financial product advice.

See also: [Australian Securities and Investments Commission](#)

Australian Prudential Regulation Authority (APRA)

The government body responsible for the regulation of most superannuation funds. (Self Managed Super Funds are regulated by the Australian Taxation Office.)

Australian Securities and Investments Commission (ASIC)

The Australian Securities and Investments Commission is an independent government body that enforces and regulates company and financial services laws to protect consumers, investors and creditors.

Australian Stock Exchange (ASX)

The Australian Stock Exchange Limited operates Australia's primary national stock exchange for equities, derivatives and fixed interest securities. It also provides comprehensive market data and information to a range of users.

Australian Taxation Office (ATO)

The Australian Taxation Office is the Federal Government's main revenue collection agency. The ATO aims are to manage and shape the revenue systems that sustain social and economic policy and fund services for Australians.

Average Weekly Ordinary Time Earnings (AWOTE)

A measure of the salary and wage levels of Australian employees, calculated by the Australian Bureau of Statistics. The change in AWOTE over a period is often used as an index for annually increasing certain thresholds.

Award superannuation

Members' superannuation entitlements as set by Federal or State industrial awards or certified agreements. Sometimes these entitlements differ from entitlements members have under the minimum requirements set by the Superannuation Guarantee (SG).

B

Balanced fund

A fund that seeks both growth and income, with stability of principal, through a portfolio that includes investments from most or all of the major asset classes.

See also: [asset classes](#), [growth fund](#)

Benchmark

The yardstick that a fund manager uses to compare the performance of their fund, such as the All Ordinaries index with an Australian shares fund.

See also: [All Ordinaries index](#)

Beneficial interest

Although investors do not legally own the asset or pool of assets in a fund or trust, they do have an equitable interest, or beneficial interest. In a trust, the extent of each beneficial interest is usually measured by apportioning the value of the pool amongst all investors. A beneficial interest in a superannuation fund, is measured by the money held in an individual's superannuation account.

Beneficiary

A person who has a beneficial interest in a fund, scheme or trust.

See also: [beneficial interest](#), [interdependency relationship](#) or [annuitant](#), [reversionary beneficiary](#)

Benefit

A superannuation or a managed investment fund benefit refers to the entitlement of a fund member in respect of fund assets.

See also: [beneficiary](#)

Benefit accrual rate

A rate usually shown as a percentage, used to calculate a benefit under a defined benefit fund.

Binding nomination

An instruction given to the trustees of a superannuation fund concerning a death benefit. Unless a binding nomination is in force, a trustee will have unfettered discretion to determine to whom a death benefit should be paid. The superannuation fund's trust deed must permit a binding nomination for this to be given. The nomination must be renewed every three years (earlier if the fund's rules require) and must be signed in front of two adult disinterested witnesses.

Blue-chip

A high-quality, relatively low-risk investment. The term usually refers to shares of large, well-established companies that have performed well over a long period.

Bond

An IOU (debt security) issued by a government, government body or corporation that pays a fixed rate of interest and returns the face value on the maturity date. A type of fixed interest investment.

See also: [fixed interest investment](#)

Bubble

A condition in the investment markets when many investors believe that the environment has changed in some unique way, and prices will never go down. Recently, newspaper reports have contained references to the property market bubble.

Business cycle

Describes the phases of the economy from expansion and boom, through to contraction and recession, and back to expansion. Generally these phases follow each other, but the length of each phase is indeterminate. Also known as the economic cycle.

Buy / Sell Spread

The difference between the entry and exit price of a fund.

C

Capital gains tax (CGT)

Applies to the profit on the sale of an asset acquired after 19 September 1985 - except for principal residences.

Capital growth

Appreciation in the capital or market value of an investment, as opposed to income derived from a managed investment product.

Capital guarantee

An undertaking that the realisable value of an investment will not fall below the value calculated in accordance with the relevant product's governing rules.

Cash

As an investment term, cash is not just money held in the bank, or in your hand. Cash includes liquid investments made in the money markets with terms that are less than 1 year. Cash is one of the major asset classes and is considered a defensive investment.

See also: [asset class](#), [defensive asset](#), [fixed interest investment](#)

Cash Management Trust (CMT)

A type of unit trust that invests in the money market. CMTs generally invest primarily in fixed interest securities for no longer than twelve months. As these securities are highly liquid, CMTs can accommodate cash flows, both in and out, on a daily basis, thereby offering retail investors flexibility that is not present in a traditional term deposit.

See also: [cash](#), [fixed interest investment](#), [term deposit](#)

Co-contribution

See Government co-contribution

Compounding interest

Interest paid on interest, resulting in a geometric rate of increase on the initial investment. For example, a \$100 investment that earns 5% generates \$5 per year. With compounding, it would generate \$5 the first year, making a new basis of \$105; then \$5.25 the next year, for a basis of \$110.25; \$5.51 the next year and so on. In a managed investment, reinvesting dividends and capital gains takes advantage of the power of compounding.

Concessional component

A part of an ETP (Eligible Termination Payment), which relates to a bona fide redundancy, invalidity and approved early retirement payments made before 01 July 1994. Due to changes in legislation, no new concessional components have been created since 1 July 1994.

See also: [Eligible Termination Payment](#)

Consumer Price Index (CPI)

A measure of the price of a basket of items typifying goods and services purchased by Australian households across 8 capital cities. CPI allows comparisons of the relative cost of living over time and is used as a measure of inflation. CPI is also used to determine the inflation adjustment, if any, that investors may be entitled to under the Capital Gains Tax sections of the Income Tax Assessment Acts. CPI is calculated by the Australian Bureau of Statistics.

Contribution

A payment made to a superannuation fund by an employer, member or member's spouse.

Contribution fee

See [entry fee](#).

Contributions tax

A government tax imposed on employer and deductible employee superannuation contributions.

Corporations Act

A national scheme of legislation dealing with the regulation of companies and the securities and futures industries.

Currency hedging

An investment technique used to protect against or reduce the risk of losses from changes in the exchange rates of different currencies.

See also: [hedging](#)

Currency risk

The risk that funds invested overseas gain or lose value as a result of a falling or rising Australian dollar.

Custodian

An organisation which holds assets (eg. cash, shares) and settles transactions on those assets on behalf of third parties. A custodian is not subject to the same fiduciary duties as a trustee

D

Death insurance

An insurance policy that pays a lump sum to dependants or other beneficiaries on the death of the person covered. Also known as life insurance or life cover.

Deductible amount

The tax-free portion of a pension or annuity. Also known as the tax-free amount.

Deeming

A process where Centrelink deems an individual to have received a certain income on financial assets regardless of the actual income and capital growth received. Two different deeming rates apply – a lower rate up to a limit (which is different for couples and singles) and a higher rate thereafter.

Deferred annuities (DAs)

Rollover investments where receipt of annuity payments is deferred until a later date.

See also: [immediate annuities](#), [rollover](#)

Defined benefit fund

A superannuation fund where the benefits to be paid to the member are defined in advance of the member's retirement. The benefit is usually expressed as a proportion (for example, two-thirds, or 75%) of the member's salary on retirement. In these funds it is generally the company or sponsor of the fund (rather than the member) that carries the risk as to the ability of the fund to meet its liabilities. Opposite of defined contribution fund or accumulation fund.

See also: [accumulation fund](#), [superannuation fund](#)

Defined contribution fund

A superannuation fund which operates somewhat like a bank account. Members receive the total of all employer and employee contributions plus the investment earnings (interest) on these contributions less any taxes and other expenses. Opposite of defined benefit fund. Also known as accumulation fund.

See also: [defined benefit fund](#), [superannuation fund](#)

Dependant

A dependant for tax purposes is generally a spouse or de facto spouse or a child under the age of 18, or other person financially dependent or someone in an interdependent relationship.

See also: [interdependency relationship](#)

Diversification

Investing in many different asset classes or securities. This reduces the reliance of a portfolio on the performance of any single asset class or security; if one investment is performing

poorly, another may perform well and make up for the loss. Diversification generally smooths the return of a portfolio.

See also: [asset class](#)

Dividend

A payment of cash from a company's profits to its shareholders. Dividends received by a managed fund from its portfolio are distributed to its unit holders as fund distributions.

See also: [distribution](#)

Dividend imputation

A tax rule which eliminates double taxation on company dividends. Tax paid by a company is carried to shareholders via a tax credit associated with the company's dividend. Also known as franking credits.

E

Eligible Termination Payment (ETP)

Comprises superannuation payments, accumulated sick leave, invalidity, ex-gratia payments, payments on commutation of an annuity/pension and withdrawals from rollover funds. Excludes payments for unused long service and annual leave.

Entry fee

The fee set by a fund manager for buying units in a managed investment, which is expressed as a percentage of the total amount invested. This fee is deducted from the amount invested. Also known as a contribution fee.

Equities

See [shares](#).

Exempt income

Income that is exempt from taxation.

Exit fee

The fee set by a fund manager for selling units in a managed investment, which is expressed as a percentage of the total amount invested. This fee is deducted from the amount invested. Also known as a withdrawal fee.

F

Financial Planning Association (FPA)

The Financial Planning Association of Australia Limited is an association representing professional financial planners in Australia.

Fixed interest

One of the major asset classes made up of fixed interest investments. Fixed interest is considered a defensive asset.

See also: [asset class](#),

Fixed interest investment

An investment that pays an unchanging rate of interest or dividends. Fixed interest investments include bonds, money market instruments, and preferred stock. Also known as bonds.

Financial Industry Complaints Service (FICS)

The Financial Industry Complaints Service is a company that has been established to provide free advice and assistance to consumers to help them in resolving complaints relating to members of the financial services industry, including life insurance, pooled superannuation trusts, funds management, financial advice, stock broking, investment advice and sales of financial or investment products.

Financial planner

A person who is licensed to provide financial advice to retail clients. Advice includes recommending strategies that are designed to help the client reach their financial goals and is tailored to their personal circumstances. Financial planners must be licensed by the Australian Securities and Investment Commission, or be an authorised representative of a licensee. Licences can be restricted to certain forms of investment. Also known as a financial adviser.

Financial product

A financial product is defined as a facility through which a person makes a financial investment, manages financial risk or makes non-cash payments. A financial product includes any of the following: interests in a managed investment scheme, derivatives, general insurance, life insurance, superannuation, basic deposit products and retirement savings accounts.

Financial Services Guide (FSG)

A guide which the holder of an Australian Financial Services Licence is required by law to give when they provide personal advice to a retail client. The guide includes a description of the organisation and services that are provided.

See also: [Australian Financial Services Licence](#)

Financial Services Reform Act (FSRA)

The Financial Services Reform Act amended the Corporations Act to establish a single licensing and disclosure regime for all retail financial products and services. It also aims to increase the level of compliance and competency in the financial services industry.

Two components of FSRA are licensing and training. Every person who gives advice about a financial product (for example, superannuation, insurance, derivatives or shares) must either hold an Australian Financial Services License or be authorised by a licensee to give advice on their behalf (referred to as an authorized representative).

See also: [Australian Financial Services Licence](#)

Float

See [Initial Public Offering](#).

FPA

See [Financial Planning Association](#).

Fund of funds

A fund which invests in a range of funds, thereby giving it the ability to diversify across manager, strategy, region and asset class. The fund of funds approach helps smooth the effects of volatility.

G

Gearing

An investment strategy where an investor borrows money to invest. Also known as leveraging.

Government co-contribution

A contribution made by the government to an individual's superannuation account. To receive a government co-contribution for a financial year, a person must meet the eligibility criteria and make a personal (undeducted) contribution to their superannuation.

Growth assets

Assets that are characterised by higher risk and can be used to generate greater returns in a portfolio.

See also: [asset class](#),

Growth fund

A fund that is designed to provide above-average returns by taking above-average risks. Typically a growth fund will have a relatively high percentage of its funds invested in growth assets such as shares.

See also: [balanced fund](#), [growth assets](#)

Growth investing

An investment approach which focuses on investing in shares of companies whose earnings are growing rapidly and are likely to continue growing.

H

Hedge

An investment strategy used to offset risk. Hedging involves the purchase of an offsetting position, such as a put option or futures contract, to guard against the risk of a market decline. Often used as a defensive strategy in portfolios investing in non-Australian securities to reduce the negative effects of unfavourable moves in currency exchange rates.

See also: [currency hedging](#)

Hedge fund

A professionally managed investment in which the manager is able to use a number of higher risk investment techniques in order to deliver positive returns independent of returns from traditional asset classes.

I

IFSA

See [Investment and Financial Services Association](#).

Immediate annuities (IAs)

Rollover investments where receipt of annuity payments commences immediately (opposite of deferred annuities).

See also: [deferred annuities](#), [rollover](#)

Income

Includes the stream of payments to the owner of an investment. Usually, payments are made on a regular basis and may represent a large part of the return (as in the case of bonds) or a smaller part (as in the case of shares).

See also: [capital growth](#)

Income protection

Insurance on your income, to ensure you are paid a percentage of your salary if you stop work due to a temporary disability or illness, for a set period of time. Also known as salary continuance insurance.

Income portfolio

A portfolio consisting of securities whose main attraction lies in the steady income they provide.

Income stream

An investment arrangement involving a formal contract that provides a regular income or annuity in return for payment of a lump sum to a provider (such as an insurer or superannuation fund).

Investment earnings on funds held to meet income streams are generally not taxed while in the hands of the superannuation fund or insurer. But the income is taxed when received.

Index

A numerical measure of price movement in financial markets, such as ASX300 Index. An index can be used as a benchmark against which to measure fund performance.

Index fund

A fund with a portfolio that is structured with the objective of matching the return of a specified financial market index.

See also: [index](#)

Inflation

A rise in the prices of goods and services, often equated with loss of purchasing power.

Initial Public Offering (IPO)

The initial raising of capital of a company by public subscription to securities, such as shares offered on the share market for the first time. Also known as a float.

Insurance bond

A single premium investment product issued by life insurance companies or friendly societies which operates in the same manner as a unit trust except that the return is provided to the Investor net of tax.

Insurance policy

A contractual document issued by an insurance company or friendly society stating the terms and conditions of its contract with the policyholder. The contract offers financial protection against a future possible event in exchange for payment of the premium.

Interest

In an investment context, the return offered by banks on deposits and governments and corporations on bonds they have issued, as a reward for lending them money.

Investment and Financial Services Association (IFSA)

The Investment and Financial Services Association Limited is a national not-for-profit

organisation representing the retail and wholesale funds management and life insurance industries. IFSA's primary role is to communicate with governments, regulators, other industry groups, media and the community on investment and financial services issues.

J

K

L

Life annuity

A product, which provides a set regular income stream, guaranteed for the life of the annuity holder.

Life insurance

See [death insurance](#).

Liquidity

The ability to easily turn assets into cash.

Liquid assets

Assets which can be easily sold. An investor should be able to sell a liquid asset quickly with little effect on the price.

See also: [fixed interest investments](#), [liquidity](#)

Listed investment company (LIC)

A managed investment which is structured as a company and is listed on an approved securities exchange.

Listed security

A share or security which is publicly traded on an approved securities exchange. Prices of these securities are determined by the market.

Listed property trust (LPT)

A managed investment scheme where the principal asset class is real property and which is listed on an approved securities exchange. The units of a listed property trust are quoted on the stock exchange, and their prices fluctuate with supply and demand, as with equity investments.

See also: [unlisted property trust](#)

Loan to valuation ratio

Refers to the maximum amount lenders will approve against the value of any property taken as security for a loan.

For example, if you wish to purchase a property worth \$100,000 the lender may approve a loan for 80% of the property value. It will then be up to you to provide the remaining 20% plus costs (mortgage registration and stamp duty etc).

Long-term

In investments, long-term usually represents five years or more, though the number of years is not fixed.

See also: [medium-term](#), [short-term](#)

Long-term investment strategy

A strategy that looks past the day-to-day fluctuations of the investment markets and responds to fundamental changes in the markets or the economy.

Lump sum

A superannuation benefit that is taken as a single payment rather than an income stream. Sometimes receiving a super lump sum is described as taking it in cash.

See also: [eligible termination payment](#), [income stream](#)

Lump sum tax

Tax which is paid on a lump sum superannuation benefit. Concessional tax rates apply only to Eligible Termination Payments (ETPs).

See also: [eligible termination payment](#), [lump sum](#)

M

Managed fund

See [managed investment](#)

Managed investment

A professionally managed portfolio of securities that pools the assets of individuals and organisations to invest toward a common objective such as producing current income or long-term growth. Also known as a managed investment schemes, managed funds or units trusts.

For more information see the factsheet [An IFSA guide to understanding managed investments](#).

Management Expense Ratio (MER)

A ratio, expressed as a percentage per annum, used to capture expenses incurred by an unlisted managed investment scheme. Charges incurred by a direct Investor in the same assets should be excluded where these can be identified.

Manager risk

The risk that a particular fund manager will under-perform.

Margin call

Under a margin loan arrangement, a requirement that margin deposits are brought up to a required minimum level to cover an adverse movement in price.

See also: [margin lending or margin loan](#)

Margin lending or margin loan

A type of loan available from various financial institutions allowing investors to borrow cash against the value of listed shares or units in managed investments. Investors in margin lending schemes are typically required to maintain a predetermined minimum equity ratio within the loan, which varies depending on the exact security or combination of securities held. If the investor's equity falls below the agreed level as a result of adverse market movements, a margin call is made, requiring the investor to restore the loan to the minimum ratio.

Marginal tax rates

Tax rates increase in a graduated scale. Income is taxed at the rate applicable in each band. Also referred to as "tax brackets".

Market cycles

A business cycle concerned specifically with rises and falls in market activity, as measured by an index. Market cycles generally correspond to the economic clock, with periods of heavy purchasing indicating growth, and periods of heavy selling indicating recession.

Market risk

The risk of major movements in value within a particular asset class.

Medicare Levy Surcharge

A tax charged on income in addition to marginal tax rates to fund the public health care system.

Medium-term

In investments, medium-term generally represents a period of three to five years.

See also: [long-term](#), [short-term](#)

Multi-sector fund

A managed investment where investments are made across a range of asset classes. They usually include investments in shares, property, fixed interest securities and cash. Also known as diversified funds.

See also: asset classes, single-sector fund, diversification

N

Negative gearing

The purchase of an investment using borrowed funds, where the interest on the borrowing exceeds the income derived from the investment. For tax purposes, this negative net income can be offset against income gained from other sources. Negative gearing is most often associated with purchases of investment real estate, but can also apply in the case of shares or managed investments.

Net tangible assets (NTA)

In a managed investment net tangible assets are calculated by dividing the value of the assets of the managed investment scheme by the number of units on issue.

See also: [units](#)

O

P

Portfolio

A collection of investments, often of an individual, a fund or investment manager.

Product Disclosure Statement (PDS)

A document offering investment in a financial product to retail clients and which contains key information about the features of a financial product being issued or sold.

Price to earnings ratio (P/E ratio)

A method of valuing stocks, calculated by dividing the closing price of a company's shares by its annual earnings per share. Growth shares tend to have high P/E ratios compared to income shares.

Profit taking

Selling securities after they have risen in value to realise a gain.

Property

One of the major asset classes. Property investments are varied and can include: commercial, industrial, residential and rural sectors. Property is considered a growth asset.

See also: [asset class](#), [growth asset](#)

Property (direct)

Refers to direct holdings of real estates but also refers to unlisted trusts that directly hold investments in real property.

See also: [asset class](#), [listed property trust](#)

Public offer funds

These are superannuation funds marketed to the public at large, generally not standard employer sponsored and are subject to rules defined under the Superannuation Industry (Supervision) Act 1993. Also referred to as public offer superannuation funds.

Q

R

RBA

See [Reserve Bank of Australia](#).

Real rate of return

The return on an investment after it is adjusted for the effects of inflation.

Reasonable Benefit Limits (RBLs)

The maximum superannuation benefits (from one or more funds) one person can receive over a lifetime, on a concessional tax basis. There are two RBLs, one for benefits taken as a lump-sum and one for benefits taken as a pension.

See also: [lump-sum Reasonable Benefit Limit](#), [pension Reasonable Benefit Limit](#)

Redemption

The process of converting an investment into cash.

Reportable fringe benefits

Commencing from the 1999/2000 tax year, employers must report the 'grossed-up value' of most fringe benefits on Group Certificates. For example, the value of fringe benefits provided

in the period 1 April 2001 to 31 March 2002 will be shown on the 2001/2002 Payment Summary.

Reserve Bank of Australia (RBA)

The Reserve Bank of Australia is responsible for monetary policy. Policy decisions are made by the Reserve Bank Board, with the objective of achieving low and stable inflation over the medium term. Other major roles of the RBA are maintaining financial system stability and promoting the safety and efficiency of the payments system. The RBA is an active participant in financial markets, manages Australia's foreign reserves, issues Australian currency notes and serves as banker to the Commonwealth Government.

Residual Capital Value (RCV)

The lump sum benefit payable at the end of the annuity contract or upon death of the annuitant.

Responsible entity

The company named in ASIC's record of a managed investment scheme's registration as the Responsible Entity or Temporary Responsible Entity of the Scheme. The Responsible Entity of a registered Scheme is required to operate the Scheme and perform the functions conferred on it by the Scheme's constitution and the Corporations Act 2001. The Responsible Entity of a Scheme must be a public company under the Corporations Act 2001 and must hold an Australian Financial Services licence from ASIC.

Return

The amount of money your investment earns, usually expressed as a percentage. Also known as investment performance.

Risk

In its simplest sense, risk is the variability of returns. There are many different types of risk including manager risk, market risk and currency risk.

Rollover

The transfer of an Eligible Termination Payment (ETP) into an approved deposit fund, deferred annuity or superannuation fund prior to retirement in order to defer or (if the rollover remains in place until at least minimum retirement age) avoid the requirement to pay lump sum tax.

See also: [Eligible Termination Payment](#), [lump sum tax](#), [approved deposit fund](#), [deferred annuity](#), [superannuation fund](#)

Rollover fund

This type of fund can accept and invest accumulated superannuation and specific payments from employers (ETPs). It includes Approved Deposit Funds (ADFs), Deferred Annuities (DAs), immediate annuities and superannuation funds.

See also: [approved deposit fund](#), [deferred annuity](#), [Eligible Termination Payment](#), [lump sum tax](#), [rollover](#), [superannuation fund](#)

Salary continuance insurance

See [income protection](#).

Salary sacrifice

An arrangement between an employer and an employee whereby the employee's gross salary is reduced by a certain amount, and the employer's contributions to the superannuation fund for that employee are increased by the same amount. Salary sacrifice arrangements are recognised by the Australian Tax Office as employer contributions.

Sector

A group of securities that share common characteristics, for example, resources sector, textiles sector.

Self managed superannuation fund

A superannuation fund with less than five members, where:

- Each individual trustee of the fund is a fund member
- Each member of the fund is a trustee
- No member of the fund is an employee of another member of the fund, unless those members are related
- No trustee of the fund receives any remuneration for his or her services as a trustee

These funds are regulated by the Australian Taxation Office.

Shares

Securities issued by companies to raise money in exchange for part ownership in the company and generally an entitlement to a portion of the profits made by the company. Also known as equities and stocks.

Share ratio

A derivative contract developed by the Australian Stock Exchange in 1994 that allows investors to gain exposure to an equity, not on the basis of whether it goes up or down in price, but on the basis of its performance relative to index. Share ratios allow investors to hedge company specific risk during periods of potential volatility, because they do not pick the direction of the overall market, rather how a share will perform relative to it.

See also: [derivative](#), [hedge](#), [volatility](#)

Short-term

In investments, short-term generally represents a period of less than one year.

See also: [long-term](#), [medium-term](#)

Single-sector fund

A managed investment that invests in a single asset class, such as Australian shares.

See also: [asset class](#), [multi-sector fund](#)

S&P/ASX 200 index

The S&P/ASX 200 index is a benchmark for the Australian sharemarket. It is often used by investment managers to benchmark against a portfolio characterized by sufficient size and liquidity. The S&P/ASX 200 is comprised of the S&P/ASX 100 plus an additional 100 stocks.

See also: [all ordinaries index](#), [index](#)

Standard deviation

A statistical measure of the extent to which returns deviate from the mean or average. The smaller the difference, the lower the standard deviation will be and the greater the degree of stability you can expect from the investment. It is the most common way to measure the risk of an investment.

See also: [risk](#), [volatility](#)

Statement of Advice (SoA)

A document which a holder of an Australian Financial Services Licence is required to provide to a retail client when they give them personal investment advice.

Stocks

See [shares](#).

Superannuation Complaints Tribunal (SCT)

A tribunal established by the Federal Government to deal with certain complaints concerning decisions of super fund trustees. The Tribunal requires complaints to be fully addressed through the fund's internal dispute resolution procedure before it can consider a complaint.

Superannuation contributions surcharge

See Superannuation surcharge.

Superannuation fund

A fund established primarily to provide benefits for members on their retirement. Superannuation funds are usually governed by a trust deed and administered by trustees. Funds which comply with legislative requirements, are eligible for taxation concessions. Also known as a super scheme and super plan.

Superannuation Guarantee (SG)

Employers in Australia are required by the Superannuation Guarantee (SG) legislation to make contributions to a complying superannuation fund for most employees. The amount contributed is equal to a percentage of an employee's salary, generally based on ordinary time earnings. The earnings base used for these calculations may also be stipulated under an award. The minimum contribution under the Superannuation Guarantee is 9% of an employee's ordinary time earnings.

SG contributions are not required for employees who:

- Earn less than \$450 per month;
- Are age 70 or over; or
- Are under age 18 and working 30 hours or less per week.

However there may be an obligation to contribute under an Industrial Award or Workplace Agreement. Financial penalties (including payment of outstanding contributions) are payable to the Australian Tax Office if SG amounts are not paid to a complying super fund on a quarterly basis.

Superannuation surcharge

A tax levied on contributions made to superannuation funds on behalf of people with high incomes. The tax phases in for adjusted taxable incomes over a lower threshold and the full tax applies from an upper threshold. The tax applies to superannuation contributions, eligible termination payments received directly from employers and surplus distributions within defined contribution superannuation funds.

Switch

A transaction where an investor transfers either between two funds or components of a scheme e.g. between a growth fund and a balanced fund.

T

Tax brackets

See [marginal tax rates](#).

Tax offsets

There are many types of tax offsets. These are calculated and taken away from the amount of tax payable.

Tax year

1st July to 30th June.

Taxable income

Income that is subject to taxation

Term allocated pension (TAP)

A pension providing an income where the amount is not guaranteed, but the term of is. Annual pension payments are worked out on the basis of the account balance at the start of the year but there is no flexibility to choose the income level. TAPs cannot be commuted to a lump sum (other than in limited circumstances), are partially exempt for the assets test and are assessed under the more generous pension Reasonable Benefit Limit. Also known as growth pensions and market-linked income streams.

See also: [annuity or immediate annuity](#), [allocated pension](#), [assets and income tests](#), [complying pension or annuity](#), [reasonable benefit limit](#), [reversionary beneficiary or annuitant](#)

Term certain annuity

A type of annuity contract where the term of the contract is for a specified period. For example, 5 years and continuation payments do not depend on whether a person is alive or not.

See also: [annuity](#)

Term deposit

A fixed interest investment which offers a fixed rate of return at the end of a set period of time (usually short or medium term).

See also: [fixed interest investment](#)

Time horizon

The length of time before you want to access the money tied up in your investment.

Total and permanent disablement (TPD) insurance

An policy that provides insurance cover if a person suffers from permanent disablement.

Total return

The percentage change of a portfolio over a period assuming the reinvestment of all distributions back and adjusting for any capital re-organisation.

Trust Deed

A document which sets out the rules for the establishment and operation of a superannuation fund or non-registered scheme. In relation to a managed investment scheme the Scheme Constitution may be a trust deed.

U

Undeducted contributions

Part of an Eligible Termination Payment which represents employee contributions and other personal contributions made since 1 July 1983 to a superannuation fund for which no tax deduction has been received. Undeducted contributions are not taxable and do not count towards a persons Reasonable Benefit Limit.

See also: [Eligible Termination Payment](#), [Reasonable Benefit Limit](#)

Undeducted purchase price (UPP)

The amount used to purchase a pension or annuity for which no tax deduction has been granted. The UPP is used to calculate the tax-free portion of the annual pension or annuity.

Unit

The measure of an investor's share of a managed investment or fund, consistent with the concept of a share in a company.

Unit price

A unit price is equal to the value of the underlying assets of an investment option divided by the number of units issued. Unit prices move up and down each day in line with the movement in the value of the underlying assets. As such, investment earnings (positive or negative) are reflected in the movement of the unit price.

Unit trust

See [managed investment](#)

Unlisted security

Referring to shares, or units that are not available for purchase on an approved stock exchange.

See also: [listed security](#)

Unlisted property trusts

A trust that owns a portfolio of real property and is not listed on an approved stock exchange. Where an unlisted property trust is a registered managed investment scheme the rights, obligations, responsibilities and liabilities of scheme members and the responsibility entity of the scheme are contained in the scheme constitution and under the Corporations Act.

See also: [listed property trust](#)

V

Value investing

A style of investing which attempts to invest in companies whose stocks appear to be undervalued by the market at large.

Vesting

When a member of a superannuation fund becomes legally entitled to a benefit.

Volatility

Changes in the price of a security, the variability (fluctuation) of returns, both positive and negative, usually expressed in percentage per annum terms. Rapid, wide price swings indicate a high degree of volatility.

Withdrawal fee

See [exit fee](#).

Wrap account

A securities transaction and portfolio administration service generally involving a nominee of custodial arrangement enabling transactions in listed securities and managed funds by the investor using the service.

Yield

The rate at which a security distributes income, expressed as a percentage of the current price. For example, if a fund distributes \$1 per share over the year and at the end of the year the price is \$20, its yield is $\$1/\20 , or 5%. Yield is an important measure of performance for income funds and individual bonds.