

With Profits Investment Bond

With Profits Investment Bonds are a type of capital investment bond as explained in the page describing Capital Investment Bonds. The investment is in to the "with profits" fund of the relevant company. The with profits fund invests in a portfolio of shares, fixed interest investments, property and cash. The returns earned by the life assurance company are smoothed out over the years and paid as bonuses which are added to the plan to produce growth. At any time, you can start to withdraw all or part of the bonuses as an income.

Generations of policy holders have been familiar with the "with profits" type of life assurance policy and the most common type has been the regular premium endowment assurance. A guaranteed sum assured is paid on death or on the maturity of the policy and in addition, a regular bonus is added. When the policy matures an extra "terminal or final bonus" is added. The bonuses tend not to fluctuate wildly and "with profits" policies formed a secure and stable form of investment.

Whilst endowment assurances are rare these days, the concept is available for lump sum investment in the form of a "with profits capital investment bond". The investment buys units in the with profits fund which increase in value daily through the payment of a bonus. When the investment is finally cashed in or switched to another fund, a terminal bonus may be payable based on the investment performance at the time of the with profits fund. It should be noted however, that bonuses come from profits yet to be earned therefore there is no guarantee that current bonus rates will be maintained.

Unit prices in this fund do not fall, however, you should remember that past performance is not necessarily a guide to the future and the rates of bonus paid can fall as well as rise. In extreme conditions, bonus rates can reduce to zero. We would recommend you read the page sheet explaining "with profits funds and the market value adjuster". The "market value adjuster" applies to all with profits bonds for your protection and can affect the encashment value at any particular time. At times of heavy stock market falls, most insurance companies apply a market value adjuster to bonds. This is to reflect the falls that will have occurred in the investments held by the with profits fund and they are likely to remain until a noticeable and sustained improvement takes place in the UK stock market. However, although bonus rates can fluctuate, the market value adjuster does not affect the value of the bond used for the calculation of annual bonuses and that is the great benefit of with profits bonds.

The with profits fund pays an annual bonus which is added to the plan throughout the year, and may pay a terminal bonus. The terminal bonus, if payable, is only paid at the rate applying at the date the bond is encashed. If you do not take withdrawals for income or withdraw less than the current rate of annual bonus, you will benefit from capital growth and the opportunity to take an increased income at a later date.

The with profits bond is a medium term investment, by which we mean that we expect it under normal circumstances to last for more than 5 years. The bond can still be encashed earlier, in fact at any time from day one. However, life assurance companies base their costs on a minimum term of five years and if the bond is cashed in early they make a withdrawal

charge. If they do, this will be set out in the personal illustration and key features document you will receive. After this initial period there is no withdrawal charge.

In summary, the with profits bond is designed to produce secure capital growth and/or income with access to your funds at any time.