



## MM FINANCIAL MANAGEMENT

Financial Planning since 1990

### Single Premium Investment Bonds

Single Premium Investment, or Insurance, Bonds enable the private investor to obtain a spread of investment and professional management at modest cost. Bonds are simple to arrange and require minimal administration.

More than 1,000 bond funds are presently available from almost 100 different companies. Balanced Managed Funds are invested in UK and overseas equities, property and cash, and should produce good long term capital growth. Alternatively, some specialist equity funds offer the prospect of high returns, but are also high risk.

Income may be obtained by partially encashing the bond on either a regular or irregular basis. Up to 5% of the original investment may be withdrawn each year without any immediate liability to personal tax. If the allowance is not used it may be carried forward so that, for example, after ten years it would be possible to withdraw 10% per annum for the following ten years.

Another benefit of insurance bonds is their ability to be written on a single owner, joint lives assured basis. This allows a bond to continue in force after the death of the investor, ensuring a seamless transfer to the nominated beneficiary(ies). The value of the bond at death would however be included in the value of the estate for probate purposes.

The price of units is determined by reference to the underlying assets of the fund. Units are purchased at the Offer price, and realised at the Bid price. There is usually a difference of 5% to 6% between the Bid and Offer prices which covers the cost of arranging the investment. A management charge, typically 1% per annum, is automatically deducted from the investment on a daily or weekly basis.

Insurance bonds may be encashed at any time and gains are not liable to Capital Gains Tax. However, on final encashment, or if more than 5% of the original investment is withdrawn in any one tax year, any gain is potentially liable to income tax. The rate of tax on the gain is the difference between the investor's top rate of tax and the basic rate then applying. **Basic rate taxpayers are therefore not liable to pay any additional tax.** Please note that the taxation of bonds may change in the future.

"With Profits" Insurance Bonds are designed for the cautious investor who does not want the volatility usually associated with equity linked investments. In the With Profit fund the value of the investment will grow with the addition of annual bonuses, and on final encashment a terminal bonus may be payable. The bonus rates are declared annually, and the overall return will benefit from the effect of smoothing the underlying investment returns. Some providers reserve the right to apply a market value adjustment factor (MVA) on early surrender which is designed to protect the fund in times of poor investment conditions.



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### **Risk Warnings**

Past performance is no guarantee of future performance, and the value of investments can fall as well as rise. These products are intended as medium/long term investments. Therefore if you withdraw from them in the early years you may not get back the full amount invested.

The return on "with profits" policies depends upon the profits made by the life office and its policy as to their distribution (whether on early encashment or in other circumstances).

Insurance bonds do not produce income and "income" payments are withdrawals of capital. Excessively high levels of withdrawals may therefore lead to a degree of capital erosion.

The insurance or investment company product literature contains much useful information. It outlines benefits and risks, and we recommend that you take the time to study and familiarise yourself with it. If you have any questions please let us know and we will be pleased to answer them.