



# Child Bond Key Features

The Financial Services Authority is the independent financial services regulator. It requires us, Scottish Friendly, to give you this important information to help you to decide whether our Scottish Bond is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference

## ITS AIMS

- To provide a child, currently under the age of 16, with a tax-efficient investment and a tax-free† return at the end of a selected term.
- To give you the opportunity to invest on behalf of a child making use of the child's friendly society tax-free savings allowance.

## YOUR COMMITMENT

- You agree to pay your chosen level of premium for the term of the policy. For the conditions which apply to lump sum investments, please see the appropriate section.

## RISK FACTORS

- Future bonus rates will depend on investment performance and are not guaranteed.
- Your circumstances may change, forcing you to cash in the policy early.
- If you cash in the plan early, the child may not get back as much as you have paid in. If the plan is cashed in within the first two years there will be nothing returned.
- Our deductions may turn out to be higher than expected.

†Tax-free means free of Income and Capital Gains Tax. On maturity, proceeds are free of tax. The fund in which you invest receives UK dividend income net of Corporation Tax.

*No advice has been provided by Scottish Friendly in relation to this plan. If you are in any doubt as to whether this plan is suitable for you, you should contact a financial adviser for advice. If you do not have a financial adviser, you can get details of local financial advisers by calling IFA Promotion on 0800 085 3250 or visiting [www.unbiased.co.uk](http://www.unbiased.co.uk). Advisers may charge for providing such advice and should confirm any cost beforehand.*



### What might the child get back after 10 years?

#### An example:

**Age Next Birthday** – 6 years

**Policy Term** – 10 years

**Monthly Premium** – £25 (total invested £3,000)

**Sum Assured** – £2,609 (Guaranteed Minimum Payout)

If investments grew at 5% per year the child would get back £3,180.

If investments grew at 7% per year the child would get back £3,480.

If investments grew at 9% per year the child would get back £3,810.

- These figures are only examples and are not guaranteed. They are not minimum or maximum amounts. What the child gets back depends on how the investments grow and on the tax treatment of the investment.
- The child could get back more or less than this.
- All friendly societies use the same rates of growth for illustrations but their charges vary.
- Do not forget that inflation would reduce what the child could buy in the future with the amounts shown.

### What is the Child Bond?

- The Child Bond is a tax-free with profits endowment plan which means that the bond grows tax efficiently and the child's lump sum payout is free of tax.
- The Child Bond can be taken out for children aged 15 years and under who reside in the UK.
- The policy is the property of the child.

### How does it work?

- You select at outset how much you wish to save regularly throughout the chosen term of the plan. In return for this level of savings, we guarantee to pay the child an amount (the 'sum assured') at the end of the term. Each year we declare a regular bonus, which is added to the sum assured, increasing the guaranteed benefits the child will receive at the end of the plan. Once added, a regular bonus cannot be taken away. In addition, the child may receive a final bonus along with the guaranteed benefits. Future bonus rates depend on investment performance and cannot be guaranteed. The plan comes into force when the policy document is issued and the first premium is successfully collected.

### How much can I save?

- Regular premiums can be paid either monthly or annually, subject to a minimum of £10 a month or £120 per year and a maximum of £25 per month or £270 a year. Lump sum payments (minimum £1,040, maximum £2,340 for a 10-year term) are also accepted. For a term greater than 10 years, please refer to the section on page 4 for details of lump sum investment amounts.
- If the child currently has money saved for them with another friendly society, you should make sure that the amount you start saving for them with the new plan does not exceed the above tax-free limits.

### How is my money invested?

- Your savings, as part of the with profits fund, are invested in a wide variety of long-term investments such as fixed interest stocks, commercial property and company shares. These investments aim to provide a balance between good long-term growth prospects and security.
- Investment performance is reflected in the plan through the addition of bonuses. Our policy is one of fairness to all policyholders and of paying bonuses which reflect our performance in terms of investment returns, mortality experience and costs. The effects of short-term fluctuations in stock market levels are partially smoothed out by the declared bonuses.

#### What if the child were to die during the term?

- If the child should die during the term of the plan, a tax-free cash lump sum will be paid out to the child's estate equal to the death benefit at that time.
- The death benefit consists of the sum assured plus any bonuses added. Once a regular bonus has been added it cannot be taken away.

#### What if I were to die during the term?

- If you were to die during the term of the plan, someone else can take over responsibility for the Child Bond on your behalf. If you are paying monthly or annually they can continue paying the premiums.

#### What happens if I stop paying the premiums?

- You will be notified that the life cover will cease. The policy may be reinstated within 12 months from the date of the lapse subject to satisfactory evidence of health and payment of the outstanding premiums. After 12 months the policy cannot be reinstated.
- If you stop paying the premiums in the first two years, the policy will lapse with no value.
- If you stop paying the premiums after the first two years, a surrender value may be available to the child.

#### The Early Years

The illustration below is based on a £25 monthly investment in the Child Bond for a child aged 6 next birthday at outset.

**WARNING:** If you cash in during the early years of your plan, the child could get back less than you have paid in. The last two columns assume that investments will grow at 7% a year.

At end of year	Total paid in to date	Total actual deductions to date	Effect of deductions to date	What you might get back
	£	£	£	£
1	300	300	311	0
2	600	349	382	261
3	900	363	422	577
4	1,200	377	466	915
5	1,500	391	513	1,270
10	3,000	471	811	3,480

#### What are the deductions for?

- The deductions include the cost of setting up the policy, expenses, life cover, any surrender penalties and any other adjustments.
- The last line in the table shows that over the full term of the policy the effect of the total deductions could amount to £811.
- Putting it another way, leaving out the cost of life cover, this would have the same effect as bringing the investment growth used down from 7% to 3.0% a year.

#### LUMP SUM FUNDING PLAN KEY FEATURES

- Our lump sum funding plan is a convenient way of taking care of all your annual premiums at one time.
- The Key Features show how this option differs from the regular premiums plan. Apart from these features, all other elements in this Key Features document apply to both regular premium and lump sum plans.

### Its Aims

- To provide a guaranteed income over an agreed period to pay the yearly premiums of the Child Bond.

### Your Commitment

- You pay a lump sum.

### Risk Factors

- Your circumstances may change, forcing you to cash in early.
- If you cash in within the first few years, you are unlikely to get back as much as you have paid in.
- If you cash in but wish to continue the Child Bond, an alternative method of meeting the premiums will have to be found or it will be adversely affected.

### How will it work?

- Although a lump sum investment is not directly allowed into the Child Bond, it is a convenient way to take care of all the premiums for the full term in one go. An example of how it works for both a 10- and 20-year term is as follows:
- If you invest the maximum of £2,340 for a 10-year term, this provides the Child Bond with its first annual premium of £270 with the remaining £2,070 purchasing a lump sum funding plan. This lump sum funding plan then provides the Child Bond with a yearly premium of £270 for the remaining nine years, reducing the capital in the lump sum funding plan. After 10 years therefore, £2,700 will have been invested in the Child Bond with the capital in the lump sum funding plan having been used up.
- For a 20-year term – which could coincide to mature on the child's 21st birthday – if you make a lump sum investment of £3,882 then a total of £5,400 will be invested into the Child Bond.

The table below illustrates in more detail how much could be invested for a 10-, 17- or 20-year term.

Choice of saving	You pay in minimum		Maximum
Lump Sum for 10-year term	£1,040 (Worth £1,200)	£1,733.33 (Worth £2,000)	£2,340 (Worth £2,700)
Lump Sum to age 18*	£1,548.44 (Worth £2,040)	£2,580.74 (Worth £3,400)	£3,484 (Worth £4,590)
Lump Sum to age 21*	£1,725.33 (Worth £2,400)	£2,875.56 (Worth £4,000)	£3,882 (Worth £5,400)

\*Based on a bond commencing for a child aged one next birthday at outset.

Your lump sum will be used to set up a lump sum funding plan which invests in Scottish Friendly's taxable fund and guarantees to pay the annual premium into your tax-free Child Bond. The lump sum funding plan is not a tax-free policy as it is part of the Society's taxable fund. There are tax implications for higher rate taxpayers. For full details see Tax Section.

- If you die during the term, the lump sum funding plan is in force, the amount remaining in the lump sum plan will pass to your estate. It will then be up to the person taking over the plan to decide whether annual premiums from the lump sum plan should continue to be paid into the Child Bond.

#### Policy Details

##### An example:

**Age Next Birthday** – 6 years

**Contract Term** – 9 Years

**Annual Income** – £270

Investing £2,340 in the lump sum funding plan will fund the Child Bond policy with an annual premium of £270 over the next 10 years.

#### The Early Years

**Warning:** If you cash in during the early years you could get back less than you have paid in. If you cash in early, an alternative method of paying the premiums of the Child Bond will have to be found.

The last column assumes that investments will grow at 6% a year.

At end of year	Total paid in to date	Withdrawals	What you might get back
	£	£	£
1	2,340	540	1,810
2	2,340	810	1,620
3	2,340	1,080	1,410
4	2,340	1,350	1,200
5	2,340	1,620	980
9	2,340	2,700	0

The above table details the encashment value of the lump sum funding plan should you decide to terminate the plan before the end of the term. The amounts detailed relate only to the funding plan.

#### FURTHER INFORMATION

##### Cancellation Rights

- After your application is accepted, you will receive notice of your right to cancel the policy. By law, you then have 30 days in which to change your mind. To cancel, you simply need to follow the instructions contained within your welcome pack. If you cancel within this time, you will receive back any premiums paid.

##### Paid-Up Value

- If the policy has been in force more than two years, you can cease paying the premiums and the child will receive a paid-up policy (if they do not take the surrender value). If the policy is lapsed with more than two years' premiums, it will have a paid-up value. However, the guaranteed policy benefits will be adjusted accordingly, and no further bonuses will be added.

### **Investments**

- Your money will be invested in the Society's main with profits fund. The main fund invests in a wide range of shares, government stocks and commercial property. Investment performance of the fund is reflected in the bonuses declared.

### **Charges**

- The charges, expenses and other deductions shown in this guide are best estimates and are based on current experience. They could vary in the future.

### **Tax**

- All premiums invested in the Child Bond are invested free of Income Tax and Corporation Tax. The fund receives UK dividend income net of Corporation Tax. The policy proceeds are normally free of personal liability to Income and Capital Gains Tax. However, a tax liability can arise when the policy has been made paid-up within 10 years (or within the first three-quarters of the term if less) and is subsequently surrendered. In such circumstances tax may be payable on the excess of the proceeds over the premiums paid in respect of higher rate taxpayers.
- The lump sum funding plan, which funds the annual premiums of the Child Bond is subject to tax, which is paid by Scottish Friendly. The benefits payable under this policy are free of Capital Gains Tax and basic rate Income Tax. Higher rate taxpayers will incur an additional tax liability which will be recovered by the HM Revenue & Customs at the tax year end assessment. Any age allowance to which you may be entitled may be affected.
- The lump sum funding plan will form part of your estate for Inheritance Tax purposes. However, the annual premiums for the Child Bond will often be covered by the annual gift exemption (currently £3,000) or may be considered as part of "normal expenditure" and so exempt. For further details consult your usual tax adviser.
- All references to taxation are to UK taxation and are issued on the basis of Scottish Friendly Assurance Society's understanding of current tax law and practice. In particular it must be remembered that the levels and basis of taxation may change.

### **Cashing In**

- You may cash in at any time, however, in the first two years there will be no return. After the first two years the return may be less than the amount paid in. Applications for termination or surrender should be made in writing to Scottish Friendly.

### **Law**

- In legal disputes, the law of Scotland will apply.

### **The Society**

- Scottish Friendly Assurance Society Limited was founded in 1862 (formerly The City of Glasgow Friendly Society) and is an incorporated friendly society under the Friendly Societies Act 1992, registered in the United Kingdom at the address overleaf. The total funds under management are over £800 million (as at 31/12/2007).

### **Queries and Complaints**

- For further information or if you wish to complain about any aspect of the service you have received, please contact Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ.
- If your complaint is not dealt with to your satisfaction, you can complain to the Financial Ombudsman Service (South Quay Plaza, 183 Marsh Wall, London E14 9SR, Tel 0845 080 1800). Making a complaint will not prejudice your right to take legal proceedings.

### Direct Debit Guarantee

- This guarantee is offered by all Banks and Building Societies that take part in the Direct Debit Scheme. The efficiency and security of the Scheme is monitored and protected by your own Bank or Building Society. If the amounts to be paid or the payment dates change, Scottish Friendly will notify you 5 working days in advance of your account being debited, or as otherwise agreed. If an error is made by Scottish Friendly or your Bank or Building Society, you are guaranteed a full and immediate refund from your branch of the amount paid. You can cancel a Direct Debit at any time by writing to your Bank or Building Society. Please also send a copy of your letter to Scottish Friendly.

### Rules of the Society

- A copy of the Rules of the Society is available on request from the Society.

### Your Client Category

- We are required to categorise our clients and this determines the level of detail and information that you will receive. We will treat you as a 'Retail Client' in respect of the services we will provide you, which means that you will benefit from the highest level of consumer protection.

### Compensation

- If Scottish Friendly is unable to meet its liabilities, compensation may be payable to The Financial Services Compensation Scheme. The first £2,000 of a claim in relation to the value of the plan is protected in full. Above this, the Scheme covers up to 90% of the remaining plan value. Further information on the Scheme can be obtained from the Financial Services Compensation Scheme. Tel: 020 7892 7300 [www.fscs.org.uk](http://www.fscs.org.uk).

### Language

- The contractual terms and conditions and all communications in relation to this plan will be supplied in English.
- This leaflet is a brief guide to the Key Features of the product. Full details are contained in the policy document which is evidence of the legally binding contract between you and Scottish Friendly Assurance Society Limited.

### A GUIDE TO HOW WE MANAGE OUR WITH PROFITS FUND

The premiums you pay into the Child Bond are invested in Scottish Friendly's With Profits Fund. This guide tells you how we manage the fund and explains what you can expect to get back from the Child Bond.

**Please read this guide – it gives important information about how with profits policies work.**

### Introduction

We manage our with profits fund by following a set of principles. These principles and how we follow them in practice are explained in a document called the 'Principles and Practices of Financial Management' (PPFM). PPFM is a long and detailed document. This guide is a summary of the contents of the PPFM. If there is any conflict in interpretation as between this document and the PPFM then the PPFM takes precedence.

### What is a 'with profits' policy?

A with profits policy guarantees to pay a minimum cash sum (the basic sum assured) at a certain date in the future (the maturity date). Regular bonuses are added which increase the guaranteed

minimum cash sum. These bonuses may increase or decrease or may not be added at all. A final bonus called a 'terminal bonus' may be added at the maturity date. The amount of terminal bonus added will depend on how the investments in the with profits fund have performed while you have been paying premiums into it. The amount of terminal bonus will also depend on the allowance we make for the expense of setting up and running the policy.

The bonuses added to with profits policies depend on the way we manage the with profits fund.

#### **What are the main principles we follow?**

- We manage the with profits fund and determine bonus payments in a lawful, sound and prudent manner.
- We aim to treat all policyholders fairly.
- We aim to ensure that we can pay all guaranteed benefits as and when they become due.

#### **How do we decide regular bonuses?**

- Regular bonuses are set by taking into account what the fund can afford now and in the future.
- We normally set regular bonus rates once a year.
- We aim not to vary too much the amount of regular bonuses from year to year.
- We take into account the interest rate payable on risk-free government bonds when setting the regular bonus rate.

When regular bonuses are added to the guaranteed cash sum at maturity, they cannot be taken away.

#### **How do we decide terminal bonuses?**

Terminal bonuses are paid to make sure that you get back an amount that fairly reflects the performance of the with profits fund investments if the regular bonuses we have added have not already done this. We call this amount your 'asset share' or 'fair share'.

When we calculate your fair share, we take into account the premiums you have paid, the investment performance of the with profits fund while the premiums have been invested and the charges we make to cover our expenses.

We aim to pay out, on average, the full fair share to policyholders, but we ignore day-to-day movements in the value of the fund. We also use a method called smoothing, outlined below, to make sure payouts from one year to the next do not change significantly.

Terminal bonuses may not be added at all if the value of the with profits fund falls to a level where there may be a risk that, otherwise, other policyholders' guaranteed benefits may not be paid.

#### **What are the charges?**

The charges cover the expense of selling and setting up the policy, the expense of investing the premiums, the cost of ongoing administration and the cost of providing life insurance. We aim to charge these expenses to the with profits fund at cost.

We aim to apply charges and allocate expenses to achieve fairness between different policies and classes of policies.

#### **What is 'smoothing'?**

We will regularly review the payouts to policyholders. These reviews will occur annually and when market conditions change significantly. We use smoothing to ensure that payouts on similar policies maturing in successive years do not change by more than 10% between successive reviews. This means that if the value of investments falls at the end of the term of the policy, the payout may be protected from the full fall. If the value of investments rises at the end of the term, the payout may also not reflect the full value of the rise.

**What happens if you leave the fund early?**

We also use a 'fair share' approach when we work out how much to pay if you decide not to pay premiums until the maturity date. The target range for surrender payments is also 75% to 150% of the full fair share.

To reflect the cost of setting up your policy, there will be no payment if you stop paying premiums within the first two years.

**What happens if you die before the end of the policy term?**

The guaranteed basic sum assured plus all regular bonuses added up until the time of death are paid out. Terminal bonus may also be paid but this will depend on the number of years the policy was in force before the time of death.

**What does the with profits fund invest in?**

The with profits fund invests in a range of assets, including stocks and shares, government bonds, property and cash. We aim to maximise the investment returns while ensuring the fund can meet its commitments to policyholders.

We formally review the assets in the fund every year and more frequently when market values are volatile. We closely monitor the amount of shares and property invested in the fund as returns from these investments are generally more volatile than those from government bonds and cash. We would expect this to generally be in the range 40% to 70%.

**Why does the fund have more assets than it needs?**

At all times, the with profits fund needs to hold enough assets to pay policyholders the benefits promised to them, i.e. their fair share. In addition, the fund needs to hold extra assets to pay for any guarantees it has promised, e.g. the minimum cash sum at maturity. We hold reserves to cover these amounts.

Over the history of the Society, the with profits fund has built up more assets than the reserves needed. The extra assets are called the 'inherited estate'. The inherited estate gives the fund working capital and supports the way the with profits fund works, e.g. the inherited estate supports the cost of smoothing payouts.

**What risks are the with profits fund exposed to?**

The Society does not have any shareholders so the with profits policyholders ultimately receive the benefits but bear the risks of all business activity carried out.

There is a risk associated with selling new policies. There are currently no limits on the amount of new business that may be accepted into the with profits fund. However, we review our business plans each year to ensure that the costs of selling and maintaining the policies can be supported by the fund without damaging the interests of existing policyholders.

There is a risk that the cost of maintaining existing policies rises. Increases in expenses cannot be passed on to policyholders who hold policies which are not 'with profits' policies. The with profits fund currently meets the cost of any expense overruns for these 'non-profit' policies. The non-profit policies make up around 10-15% of the Society's liabilities.

Any other business ventures undertaken by the Society must be approved by the Board of Directors. These ventures might include launching new products or wider strategic developments, such as changing the way products are distributed and sold. The Board will act on the advice of the With Profits Actuary who looks after the interests of the with profits policyholders. To be approved, a venture must be expected to achieve appropriate returns given the risks involved and the returns should be comparable with other available investments.

Any profits or losses arising from business risks are met by the inherited estate and are not taken into account when determining the fair share payable for maturing policies. However, if the level of the inherited estate falls below the level needed to support the fund, losses may be deducted from fair shares.

**Where can I find out more?**

The full PPFM is available on our website: [www.scottishfriendly.co.uk/about](http://www.scottishfriendly.co.uk/about) or you can request a copy by calling 08456 00 54 33.

*This leaflet is a brief guide to the key features of the product. Full details are contained in the policy document, which is evidence of the legally binding contract between you and Scottish Friendly Assurance Society Limited.*

*If you have any queries, call us on:*

**08456 00 54 33**

*(Lines are open 8.30am to 5.30pm Monday to Friday.  
The maximum call charge from a BT landline is 4p  
per minute. Calls from other networks may vary.  
We may record and monitor calls to help us  
to improve our service.)*



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[www.scottishfriendly.co.uk](http://www.scottishfriendly.co.uk)  
Authorised and regulated by the Financial Services Authority.  
Details can be found on the FSA register – Registration No. 110002.  
Member of ABI and AFS.