

Key Features of the Child Bond

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The Financial Services Authority is the independent financial services regulator. It requires us, Scottish Friendly, to give you this important information to help you decide whether our Child Bond is right for you. You should read this document and the enclosed separate sample illustration carefully so that you understand what you are buying. Please keep both documents with the policy document, which we will send you.

ITS AIMS

■ To enable you to invest tax-efficiently for a child, using their friendly society tax-free savings allowance.

■ To provide a child, who is under 16 when you take out the bond, with a tax-free lump sum. When you take out the bond, you choose if you want us to pay the lump sum to the child:

- after 10 years (the minimum term), or
- when they are 18, or
- when they are 21.

■ A tax-free lump sum means that any growth will be free of income tax and capital gains tax and when we pay the lump sum to the child, they don't have to pay any tax on it.

YOUR COMMITMENT

■ To pay your chosen premium for the term of the bond. Alternatively, you can pay a lump sum, which we explain opposite.

RISKS

■ Future bonus rates will depend on our investment performance and are not guaranteed

■ Your circumstances, or the child's, may change, forcing you to cash in the bond early.

■ If you cash in the bond before the end of the term, the child may not get back as much as you have paid in. We won't pay anything if you cash in the bond within the first 23 months.

■ Our deductions may be higher than shown in the enclosed separate illustration.

■ Tax law may change in the future.

QUESTIONS AND ANSWERS

What is the Child Bond?

The Child Bond is designed to provide the child with a lump sum at the end of the term of years you've chosen for the bond.

It is a tax-free with-profits savings plan, which means that any growth will be free of income tax and capital gains tax and when we pay the lump sum to the child, they don't have to pay any tax on it.

You can take out a Child Bond for a child who:

- is under 16 when you take out the bond and
- resides in the UK.

The bond is the property of the child.

How does it work?

You decide how much to pay regularly throughout the term of years you've chosen for the bond or how much to invest as a lump sum. In return for these agreed premiums, we guarantee to pay the child an amount, called the 'sum assured', at the end of the term.

Each year we add a regular bonus to the sum assured. Once added, a regular bonus cannot be taken away, provided you continue to pay the premiums. We may also add a final bonus at the end of the term. Future bonus rates depend on investment performance and cannot be guaranteed.

We will only pay the sum assured and bonuses if:

- you keep the bond until the end of the term, and
- pay all the premiums when they are due.

The bond starts when we issue the policy document after collecting the first premium.

If you invest a lump sum, we will set up a separate Lump Sum Funding Plan. This guarantees to pay the yearly premiums into the Child Bond throughout the term you've chosen. The separate Lump Sum Funding Plan is not tax-free and you may have to pay a small amount of tax each year if you are a higher rate taxpayer. We explain this under 'What about tax?' on the next page.

Where are my premiums invested?

We invest your premiums in the Scottish Friendly with-profits fund. You can find out more about this in the 'Your guide to the Scottish Friendly with-profits fund' provided. Please read this carefully.

What are the charges?

The bond does not have any fixed or explicit charges, so we calculate the child's sum assured and any future bonuses after deducting all our expenses. The Early Years table in the enclosed separate illustration gives an example of the expected deductions over the term. These are best estimates, based on recent experience, and could vary in the future.

How much can I save?

You can pay monthly or yearly premiums or through our separate Lump Sum Funding Plan.

The minimum monthly premium is £10 and the maximum is £25.

The minimum yearly premium is £120 and the maximum is £270.

The minimum lump sum you can pay is £1,040 and the maximum is £2,340 for a 10-year term.

You pay monthly or yearly premiums by direct debit. You can also pay a lump sum by cheque through our separate Lump Sum Funding Plan, which we explain on the previous page.

These are tax-free limits, set by the Government. They are the total premiums that anybody can pay for a child in any friendly society plan that the child has.

What if I die before the end of the term?

If you die before the end of the term, someone else can take responsibility for the Child Bond. If you were paying monthly or yearly, they can continue paying.

If you paid a lump sum, any money remaining in your separate Lump Sum Funding Plan would form part of your estate. Your executor must then decide whether the separate Lump Sum Funding Plan should continue to pay premiums into the bond.

If payments are not continued in the event of your death, the plan can be made 'paid-up', or a surrender value may be paid to the child – see section "What happens if I stop paying the monthly or yearly premiums?".

What if the child dies before the end of the term?

If the child dies before the end of the term, we will pay a tax-free lump sum to the child's estate. This will be the sum assured plus any regular bonuses we've added.

If you paid a lump sum, we will also pay you any money remaining in your separate Lump Sum Funding Plan.

What happens if I stop paying the monthly or yearly premiums?

If you stop paying the monthly or yearly premiums, we will tell you that we will stop insuring the child's life. This means that we won't pay anything if the child dies before the end of the term.

You can start paying again providing you:

- have paid premiums for at least two years
- start again within 12 months of the date you stopped paying
- pay all the outstanding premiums

We may also ask for evidence that the child's health has not deteriorated since you started the bond.

If you don't pay for more than 12 months, you cannot start paying again.

If you stop paying in the first 23 months, the bond will end and we won't pay anything.

If you stop paying after the first two years and don't start paying again within 12 months, you can:

- cash in the bond and we'll send any cashing in value to the child, or
- make the bond 'paid-up', which means that we will:
 - reduce the lump sum we pay the child at the end of the term, and
 - not add any more bonuses.

Cashing in

You can cash in the bond at any time by writing to us. We won't pay anything if you cash it in within the first 23 months. After the first two years any lump sum we pay the child may be less than the amount you've paid in. If you paid a lump sum, we will also pay you any money remaining in your separate Lump Sum Funding Plan.

You can see examples of cash in values under 'The Early Years' in the separate enclosed illustration.

What about tax?

The Child Bond grows free of income tax and corporation tax. As with other tax-free investments such as ISAs, the fund in which you invest receives UK dividend income on which corporation tax has been paid.

The lump sum we pay the child is normally free of personal liability to income tax and capital gains tax.

However, you may have to pay tax if you make the policy paid-up within 10 years (or within the first three-quarters of the term if less) and subsequently cash it in. Making the bond 'paid-up' means that we will reduce the lump sum we pay at the end of the term and not add any more bonuses. In such circumstances, you may have to pay tax on the difference between the child's lump sum and the premiums you've paid.

The separate Lump Sum Funding Plan, which funds the yearly premiums of the Child Bond, is subject to tax, which is paid by Scottish Friendly. If you are a higher rate taxpayer, you will have to pay additional income tax through your self assessment income tax return. Any age allowance to which you may be entitled may be affected, which could mean you pay more income tax.

The separate Lump Sum Funding Plan will form part of your estate for inheritance tax purposes. However, the yearly premiums it pays into 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.

This is how we understand UK tax rules apply now. They may change in the future. If you are not sure how this bond could affect how much tax you pay, you should seek advice from a tax adviser.

Can I change my mind?

When you take out a Child Bond, we will send you a welcome pack. With this, you'll receive notice of your right to change your mind and instructions on how to cancel. You'll then have 14 days to cancel your investment. If you cancel within this period, we'll give you your money back.

FURTHER INFORMATION

Law and language

In legal disputes, the law of Scotland will apply. The terms and conditions of this bond and all other communications about it will be in English. These Key Features are a brief guide to the Child Bond. They don't include all the terms and conditions. The full details are in the policy document, which is the contract between us. We will send you this when the Child Bond starts. Please ask us if you would like a copy before then.

Further information and complaints

Here are our contact details if you need to ask us anything or complain: Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ. Telephone 0141 275 5000.

If you are not satisfied with our response to your complaint, you can contact the Financial Ombudsman Service at: Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London E14 9SR. Telephone 0845 080 1800.

Making a complaint won't affect your legal rights.

Your client category

The Financial Services Authority requires us to categorise our clients into three different types. We send different types of client different amounts of information about the plan they buy. If you start a Child Bond, you will be a 'retail client', which gives you the highest level of consumer protection.

Compensation

If you buy a Scottish Friendly Child Bond and we cannot pay the full amounts due, you may be entitled to compensation under the Financial Services Compensation Scheme. The first £2,000 of a claim in relation to the bond value is protected in full. Above this, the scheme covers up to 90% of the remaining bond value. You can get further information from the Financial Services Compensation Scheme at: Financial Services Compensation Scheme, 7th Floor, Lloyds Chambers, Portsocken Street, London E1 8BN. Telephone 020 7892 7300. Website www.fscs.org.uk.

Rules of the Society

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

How to contact us

If you require further information, please contact us.

By phone: call 08456 00 54 33.

(Lines are open 8.30 am to 5.30 pm Monday to Friday.)

In writing: write to Customer Services, Scottish Friendly Assurance, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ

Scottish Friendly Assurance Society Limited,
Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ.
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.

