FACT SHEET

Insurance & Friendly Society Bonds

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What are Insurance & Friendly Society Bonds?

Both Insurance Bonds (IBs) and Friendly Society Bonds (FSBs) are investments made with a single payment and have a nominal ten year term although the term may continue past ten years. Investment earnings accumulate within the bond on a regular basis and can accessed without further tax liability after ten years. Most bonds are unit linked so the value of the investment, including earnings, is reflected in the unit price. Bonds are most suitable for accumulating money but not for providing regular income payments.

Beneficiaries may be nominated indicating the proportion of the asset they are to receive. In the event of the death of the owner the proceeds of the bond are paid, free of further tax, to the nominated beneficiaries, by-passing the deceased estate and the risk of this distribution being contested.

IBs are provided by Life Insurance companies while FSBs are provided by Friendly Societies. Life Insurance companies and Friendly Societies are regulated by the Australian Prudential Regulation Authority (APRA) and by the Australian Securities and Investments Commission (ASIC).

Product providers may restrict the amount an investor can place in an individual bond or with a particular society. These restrictions and details of the types of assets that may be purchased should be outlined in the Product Disclosure Statement (PDS).

Features

- Medium to long-term investments which accumulate earnings
- Earnings are not included in the investor's tax return unless received within ten years. In these cases a tax offset applies. After ten years, investment returns are received tax paid
- Additional contributions of up to 125% of the previous year's contributions may be made. These count as having the same starting date as the original contribution for taxation purposes. This option must be commenced prior to the end of the second year
- Where additional contributions of more than 125% of previous year's contribution are made the 10 year cycle is recommenced from the date of the additional deposit
- Switching between different investment options within the bond (e.g. market linked to capital guaranteed) is usually possible for a fee and does not affect the 10 year cycle

But Remember...

- Earnings are not paid until they are withdrawn
- Tax benefits may not be helpful for pensioners and others on low tax rates
- While money in bonds is accessible they are not suitable for regular withdrawals
- Bonds are deemed for government income support income test assessment despite earnings generated not being actually received. Earnings are reinvested

Taxation

Insurance and friendly society bonds are often sold as "tax free" investments. Tax is actually paid by the company/society each year before earnings are added to the account. Earnings, including any capital gains realised on the underlying investments are taxed at a maximum rate of 30% in the fund's hands. Imputation credits received effectively reduce the tax liability.

Personal income tax is due upon withdrawal only. The tax due depends on the investor's marginal tax rate, applicable tax offsets, tax paid by the fund on the bond earnings and the timing of the withdrawals shown below.

When withdrawn:	Income & Tax Offset
In the first 8 years:	All earnings taxable, less tax offset.
In the 9th year:	2/3rds of earnings taxable, less tax offset.
In the 10th year:	1/3rd of earnings taxable, less tax offset.
After 10 years:	No tax due, no tax offset.
Death:	Free of further tax to estate/ beneficiaries

Government Income Support

The full balance is assessed under the assets test. Income is assessed for most bonds under the deeming rules. For further details on deeming rules contact Department of Human Services' Financial Information Service on 13 23 00, the Department of Veterans' Affairs or FID.

Security and Risk

The level of security depends on the volatility of the assets in the investment options chosen and the strength of the product provider. If investors have only small amounts to invest or cannot replace lost capital they should favour capital guaranteed bonds.

Capital guaranteed bonds provide a guaranteed return of money and may guarantee earnings once credited to the bond. There is usually no guarantee of the earnings rate. Guaranteed bonds are now rare.

Managed or growth bonds are market linked and their value will rise and fall with market movements. They usually invest in more volatile assets, e.g. shares, which have a potential for greater gain as well as loss.

Capital secure/stable bonds are also market linked but with greater exposure to less volatile assets, e.g. government bonds and limited exposure to shares. The value of these bonds can also rise and fall.

It is essential to know the type of investments purchased in the bond and to choose a bond suitable to your level of risk.

Fees

- Entry fees range from nil to 5%
- Additional deposits may attract fees
- Withdrawal fees may apply more commonly if a nil entry fee option is chosen
- Annual management fees are normally deducted before the return is declared

Investing With Safety

- Past returns are no indication of future performance
- Insurance and friendly society bonds should not be the only investment held
- They should not be regarded as short-term or at call investments
- Regular withdrawals should be avoided and money requiring ready access should not be placed in bonds
- Fully understand the product and its consequences before investing. Investors should read the fine print in the PDS before investing as this may avoid problems in the future
- Insurance and Friendly Society bonds should not be confused with government bonds and are therefore not government guaranteed. They are subject to market volatility - see section 'Safety and Risk'.