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Investment bonds

With an investment bond, you invest a lump sum in one or more of the range of available funds. Some investment bonds run for a fixed term, others have no set investment term. When you cash them in, how much you get back depends on how well - or how badly - the investment has done.

When might investment bonds be for you?

TOP TIP
If you don't understand a financial product get independent financial advice before you buy.

- you want to invest a lump sum – usually at least £5,000
- you can tie up your money for at least five years
- you are comfortable with the fact that the value of your investment can go down as well as up and you may get back less than you invested

How they work

You invest a lump sum – the minimum is usually between £5,000 and £10,000.

- Most bonds are whole of life. There is no minimum term, usually, although surrender penalties may apply in the early years.
- Usually you or your adviser has a choice of funds to invest the money into.
- At surrender or on death (or if not a whole of life bond at the end of the term), a lump sum will be paid out. The amount depends on the bonds terms and conditions and may depend on investment performance.
- Some investment bonds may guarantee your capital or your returns. These guarantees usually involve a counterparty. If so they carry the risk of counterparty failure.

Risk and return

- With investment bonds, you get the opportunity to earn a better return than you'd get with a savings account. But there's a risk you'll lose money.
- Some investments offer a guarantee that you won't get back less than you originally invested.
- By choosing a fund that allows you to invest in a variety of investment funds and switch funds easily you can weather the ups and downs of the market better.
- Because there's an element of life assurance, your policy will pay out slightly more than the value of the fund if you die during its term.

Access to your money

- You can usually withdraw some or all of your money whenever you need to, but a surrender penalty may apply if you do so in the first few years. If you think you may want access to your money early, consider alternatives.
- Investment bonds also allow you to make regular withdrawals each year up to a specified limit. Withdrawals of up to 5% each year of the amount that you invested can be taken without triggering any immediate tax liability.
- Always look at policy conditions to work out what charges may apply to full or partial withdrawals.

Charges

- There may be charges to pay when you take out the bond.
- If you choose a bond that guarantees that you won't lose money, you may pay more in charges – and check for counterparty risks.
- Switching between an insurer's investment funds is usually free, but you may be charged if you switch frequently.
- You may have to pay a charge if you cash in within the first few years.
- Insurers often offer a range of charging structures. Make sure you are happy and understand how your money will be charged.

Safe and secure?

- Your money is secure except in the unlikely event of the insurance company going bust.
- You cannot claim compensation simply because the value of your investment falls.

Tax

- The tax you pay on your investment bond depends on your circumstances but in essence are taxed at either 20% or 40%, depending on your personal tax status.

DID YOU KNOW?

- Investment Bonds are also known as Insurance Bonds, With-profit Bonds, Unit-linked Bonds and Single Premium Bonds.
- You can buy investment bonds through a financial adviser or directly from an insurance company.
- If you're not sure whether an investment bond fits your needs, it's a good idea to talk to an Independent Financial Adviser (IFA).