

With Profit Bonds- the dilemma!

The Idea

The concept of the With Profit Bond was always historically synonymous with good, solid long-term returns. You invested a sum of capital into an investment bond with an insurance company and could either take an income or leave the bond for growth. Each year the insurance company declared an annual bonus rate which once added couldn't be taken away and finally, when you cashed in the investment, you could receive a terminal bonus.

The bonus rates depended on the performance of the underlying With Profit fund's investment performance. Lack of transparency in the underlying investment strategy was always a problem, in that you didn't always know where the manager was investing the money, or how the fund was performing, which determined the annual bonus rate. Because of this lack of transparency, the annual bonus rate could sometimes be bolstered to hide poor performance as many insurance companies, with their vast reserves were looking to match the performance of more aggressive equity based funds.

We, as FSA authorised and regulated Independent Financial Advisers, are able to analyse clients' With Profit Bonds and provide appropriate advice.

Market Downturn

Then came the three-year bear market in 2000. Suddenly, for some of the weaker companies, their reserves were greatly reduced (although not in all cases). With the markets in a downturn, a number of companies now had liabilities in excess of their assets. The weaker with profit providers cut their exposure to equities, as a result of intervention from the Financial Services Authority, to increase solvency ratios and instead, focus on less volatile fixed interest securities to underpin their liabilities.

So before charges and without having to replenish the reserves they lost, some struggling with profit bond funds can only look forward to a gross return of approximately 4.0% on a high proportion of their portfolio (based on the 10-year term gilt yield June 2009).

Bonuses cut

In some cases, bonuses have been severely hit, in many cases falling to zero, with little prospect for improvement in the short term. To make matters worse, the Market Value

Adjustment clause in the with profit bonds' terms and conditions, enforces an additional penalty if you want to surrender your bond.

Worse still, many investors are still taking income from their with profit bonds at the same levels they were when bonuses were running at 7.5%pa or more.

At Kane Associates, we can analyse your With Profits bond and the effects of the Market Value Adjustment (if there is one), and current bonus levels, and recommend a suitable course of action.

Caution, if your fund is paying no bonus and you are taking 5% income from it, if inflation was 2.5% then each year you are losing 7.5% of the real value of your investment.

Please complete the [online enquiry form](#). and one of our advisers will get back to you as soon as possible