For financial advisers only

Our onshore bonds

An adviser's guide to understanding the basic contract

Countrywide Assured

Our onshore bonds: the basic contract

The key to understanding what makes onshore bonds different from other investments is that they are technically life assurance policies. They provide very minimal levels of life insurance cover – just enough to qualify legally as life policies. But it is their status as life policies that gives them their unusual tax and other characteristics.

It's worth looking at how this works in more detail.

Confusingly, the term 'bond' is also even more widely used to describe fixed-interest securities like gilts and other government stock, as well as commercial debt or 'corporate bonds' – which investors can buy directly in the stock market or through mutual funds or unit trusts.

The legal structure

An onshore bond is legally a whole of life assurance policy, meaning that it pays out on the death of the insured individual(s). The onshore bond starts when money is first invested. As it is a life assurance policy, this is technically a premium. It is then possible to top up the bond with further investments.

- Where there's more than one life assured, the bond can be arranged to pay out on the death of the first life assured or, more usually, after they have all died.
- The owner or bondholder can encash all or part of the bond at any time and access the value of the underlying investments. In insurance terms, this is surrendering the policy and the amount taken is based on the surrender value, which is slightly less than the life cover.
- For added flexibility, the bond is arranged as 1,000 identical policies or segments.
- The tax position of withdrawals or encashments depends on how they are taken and is explained in more detail below.
- The investors – either individuals or trustees – own the bonds, but the life company owns the underlying funds whose value determines the value of the bond.

What makes them 'onshore' is that they are provided by UK life assurance companies like Countrywide Assured. Bonds taken out with non-UK life companies are generally called 'offshore' bonds.

Life assured

A negligible amount of life assurance is built into the bond. The people whose lives are insured by the life company under the bond are called the 'life or lives assured' in insurance jargon. There can be up to six lives assured in the Countrywide Assured bond.

On the death of the life assured (depending on whether it is written on a first or last death basis), the policy will pay out 100.1% of the value of the funds allocated to the bond after the deduction of any charges.

- The life or lives assured could be the bondholder(s), or they could be some other people in whom they have an 'insurable interest'. All the lives assured must be aged 90 years or younger at the time of the application. It isn't possible to add or remove lives assured once the bond comes into force, so it is best to get this right at the start.
- Having more than one life assured (with the sum assured payable on the second or last death) is generally advisable. A bond is likely to last longer if there are several lives assured, especially if one of them is reasonably young. There is also less danger of the bond paying out at an inconvenient and unexpected moment. Where a bond is held in a trust, its longevity could be very important for flexible estate planning over several generations.

Ownership of the bond

A bond can have either one or two individual owners (or policyholders) who must be at least 18 years old.

- If two people apply for the bond jointly, the ownership will be joint; so if one of them dies, the other will automatically take on the ownership. If all the initial owners die, but the life assured survives, the bond will normally pass as part of the last owner's estate.
- Bonds can be held in a trust where they can be owned by up to four trustees. Companies cannot own the Countrywide Assured onshore bond.

The value of the bond

The bond's value can be linked to a wide variety of funds, usually described as the underlying funds. The investor in an onshore bond owns it as a policyholder and its underlying value is linked to the funds they choose to invest in – but the investor doesn't own the funds in same way as a mutual fund unit holder has rights over the underlying funds.

The underlying funds must be investments that UK life companies are permitted to hold, which include:

- Units in UK authorised unit trusts
- Shares in OEICs (open-ended investment companies)
- Shares in recognised overseas OEICs and SICAVs (*société d'investissement á capital variable*)

See separate note for a fuller list of permitted investments.

- The value of the bond is not guaranteed and may fluctuate like other stock market investments. Performance is affected by market movements and currency exchange rate fluctuations. Product charges, tax on the funds (see our guide to the taxation of onshore bonds), platform fees and adviser charges also impact on performance, and so would the level of withdrawals taken by bondholders over the years. Countrywide Assured values bonds at the end of each working day.
- There is a 0.1% difference between the value of the bond that the owner can take as withdrawals or final encashment – technically the 'surrender value' – and the value on the death of the insured individual(s), or 'claim value'. The claim value is 100.1% of the surrender value.

Onshore bonds on platforms

Countrywide Assured onshore bonds are only available on investment platforms with which the company has arrangements and that have been selected by the bondholder's financial adviser. A Countrywide Assured onshore bond can only be set up through a financial adviser. The adviser and any investment manager must have been approved by both the platform and Countrywide Assured.

- The platform provider is responsible for providing regular reports and valuations, which are generally available online. Countrywide Assured also provides an annual summary and valuation of the holdings linked to the bond.
- The platform can make charges for its services and set up a cash account for this purpose and take fees from the bond.
- If there's a conflict between Countrywide Assured's product terms and conditions and those of the platform, the onshore bond's prevail.

Investments and portfolio management

The underlying investments linked to Countrywide Assured onshore bonds can managed in several ways and it is possible to change the arrangements and switch the holdings. The main choices are for a portfolio to be run by the bondholder's financial advisers or wealth managers on:

An advisory basis, where the bondholder must approve every change in the underlying holdings.

A discretionary basis, where it is not necessary for the bondholder to be consulted before making changes to the investments. A firm with the appropriate discretionary permissions from the FCA can manage the investments on either a bespoke basis or as one of a suite of model portfolios.

Countrywide Assured and the platform must approve the underlying investments. It is important to remember that Countrywide Assured is the legal owner of the investments. The formal position is therefore that the investment manager acts for Countrywide Assured in the first place, which should normally follow the manager's or adviser's instructions about the investments.

Product charges

Countrywide Assured charges for providing and administering the onshore bond. There are also deductions/adjustments for tax on the underlying funds. These are subject to review and are set out in the document *Onshore bond features and charges*.

Drawing money from an onshore bond

The value of the bond should increase in the long term (although that's not guaranteed) until the death that triggers the final payout. But the bond won't generate any income payments to the bondholders unless they encash it fully or in part.

Bondholders can take regular or one-off payments that are financed by the sale of units or shares in the underlying funds at the values prevailing at the time of disposal. The main ways to draw funds from the bond are:

- Taking withdrawals of up to 5% a year until the value of the initial investment in the bond (or the value of the bond if that is lower) has been used up. There is no tax on these in the year of withdrawal.
- Withdrawing more than 5% a year, but not in the form of whole segments. This would be a chargeable event and could trigger a higher or additional rate tax charge; it is likely to be a less beneficial way to draw money from the bond.
- Encashing whole segments of the bond; these are essentially 1,000 identical mini bonds. This may trigger a higher or additional rate tax charge
- Encashing all the segments of the bond, which may also trigger a higher or additional rate tax charge.

The tax consequences of each of these means of taking cash from a bond are described in greater detail in our guide to the taxation of onshore bonds.

The main legislation governing the taxation of UK onshore bonds is in the Income Tax (Trading and Other Income) Act 2005 Part 4 Chapter 9.

Investor protection

In the unlikely event of Countrywide Assured becoming insolvent, the Financial Services Compensation Scheme (FSCS) normally covers an onshore bond for 100% of the policy value with no upper limit. This is a significantly higher level of investor protection than is available for mutual funds and bank deposit accounts. If the platform on which the bond is held becomes insolvent, bondholders have the comfort of knowing that its assets are held by a custodian and ringfenced.

Any questions?

If you have any questions please call us on 0333 0155600

Or go to **countrywideassured.co.uk**

Financial advice

This note provides details of the structure, taxation and uses in financial planning of onshore life assurance bonds and is for your guidance only. Countrywide Assured plc ("Countrywide Assured") accepts no liability for any action taken or not taken by an individual or firm as a result of the contents of this material.

We cannot accept responsibility for any consequences (financial or otherwise) arising from relying on it. It is important to note that tax treatment depends on individual circumstances and may change in the future.

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