





Help them when they start out in life with a Child Bond

Of course you want to do the best you can for the children in your life, whether they're sons, daughters, nephews, nieces, grandchildren or any child you care about. That's why Forces Mutual has teamed up with Scottish Friendly to offer you the Child Bond, so you can give them tax-efficient savings that could help give them the financial head start they need.

It could be the perfect birthday present for a child – a gift that won't break or be discarded after a few months. Something that will last for many years to come. It really is a gift that could grow with your children.



Tax-free investment

The Child Bond is a specially designed tax-free with-profits plan. Under current law, which might change in the future, this gives it two valuable tax benefits:

- all growth is free of tax (other than tax on dividends from UK shares),
- the child has no income tax or capital gains tax to pay on their payout.

You can take out a Child Bond whenever you like: it doesn't have to be for a special occasion. The sooner you start investing, the bigger the potential payout the child could receive at the end of the bond.

You choose how to invest

The Child Bond must run for at least 10 years, but you can invest for longer if you wish. Perhaps you'd like the child to have their payout on their 18th or 21st birthday?

You can invest from as little as £10, £18 or £25 a month – or you can choose to make a yearly payment of £120, £200 or £270 a year.

Child Bond at a glance

Plan features

- Invest from only £10 to £25 a month tax-free for 10 years or more.
- The bond's payout will be related to the performance of the assets within the Scottish Friendly With-Profits fund which includes the stock market, bonds, cash and property.
- The child gets a guaranteed minimum cash sum at the end of your selected term.
- A small amount of life cover for the child is automatically included as a condition of the tax benefits.
- The bond is the property of the child at all times.

What you need to consider

- The child could get back less than you've paid in and if cashed in within the first 2 years, the child will get nothing back.
- The amount of the guaranteed minimum cash sum depends on how much is paid in and the length of the savings period. It will initially be less than the amount invested over the investment term.
- The cost of life cover is included as a small part of the plan's charges.

Taxation

- Tax treatment depends on individual circumstances and tax law may change in the future.
- Tax-free means the fund the child's plan invests in grows free of income and capital gains tax (other than tax on dividends from UK shares).
- You can only invest a total of £3,600 each year in a qualifying endowment life policy including up to £25 a month in a tax exempt savings plan.
- Available to children currently aged under 16 and who are resident in the UK.

You don't have to be the child's parent

You can take out a bond for any child under 16. It could be your grandchild, godchild, niece, nephew or any other child you want to help.

The bond is the property of the child and you can be sure that they will really appreciate that extra money when they are older.

Life cover for the child is also included with this bond so you should consider if this is appropriate for their financial needs.

Scottish Friendly - over 150 years of service

Scottish Friendly was established in 1862 and is one of the UK's leading friendly societies. We currently manage over £5 billion in assets and have over 700,000 members (as at 01/11/19).

We're mutual, we only work for you

Scottish Friendly is a member of the Association of Financial Mutuals (AFM). Mutual insurers only work for their customers and not external shareholders. To find out why a mutual could be a better choice for many people, go to www.ownedbyyou.org

No advice has been provided by Forces Mutual in relation to this plan. If you are in any doubt as to whether this plan is suitable for you, you should contact a financial adviser for advice. If you do not have a financial adviser, you can get details of local financial advisers by visiting www.unbiased.co.uk Advisers may charge for providing such advice and should confirm any cost beforehand.

Product Guide of the Child Bond

Helping you decide

What is the purpose of this document?

The Financial Conduct Authority is a 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 carefully so that you understand what you are buying. Please keep this document with the policy document, which we will send you.

What questions should I ask before I invest?

- In this document we have given you the answers to some important questions. You'll find these on pages 6 to 13.

What should I do now?

Please read:

- this Product Guide section.

Please keep this document with your policy document which we will send you.

Product Guide of the Child Bond

Its aims

- To enable you to invest tax efficiently for a child, using their friendly society tax-free 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 duration), or
 - when they are 18, or
 - when they are 21.
- A tax-free lump sum means that any growth will be free of income 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

- You agree to pay your chosen premium for the life of the bond (minimum 10 years).

Risks

- Your circumstances or the child's may change forcing you to cash in the Child Bond early, in which case the child may not get back as much as you have paid in. This is particularly true in the early years where the child will get nothing back if you cash in within the first 2 years.
- The child's initial guaranteed minimum cash sum will protect some but not all of your total payments into the bond. This means, depending on future bonus rates, the child could get back less than you have paid in.
- Future bonus rates will depend on investment performance and expenses and are not guaranteed.
- The tax treatment of the plan depends on your individual circumstances and the levels and basis of taxation may change in the future. This may reduce the amount the child gets back or increase the amount of tax you pay.

Questions & Answers

Who should consider this bond?

You should consider this bond if you want to invest for a child who is under 16 when you take out the bond and you can pay regular premiums over at least 10 years.

The child's total friendly society tax-free investments cannot be more than £25 a month (or £270 a year). Life cover is also included for the child and you should consider if this is appropriate for your financial needs.

What is the Child Bond?

The Child Bond is designed to provide the child with a lump sum at the end of the bond's life.

It is a tax-free with-profits plan, which means that any growth will be free of income 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.

As a condition of the tax benefits, life cover for the child is also included. The bond is the property of the child.

How does it work?

You decide how much to pay regularly throughout the life of the bond. In return for these agreed premiums, we guarantee to pay the child an amount, called the guaranteed minimum cash sum, at the end of the bond's life.

Each year we add a regular bonus to the guaranteed minimum cash sum. 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 bond's life. Future bonus rates depend on investment performance and cannot be guaranteed.

We will only pay the guaranteed minimum cash sum and bonuses if:

- you keep the bond until the end of the bond's life; and
- pay all the premiums when they are due.

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

What is the With-Profits fund?

Our With-Profits fund is a mixed managed fund from Scottish Friendly where premiums are pooled with those of other clients and returns are linked to the performance of the underlying assets within the fund. Additionally returns are smoothed to reduce some of the ups and downs of the investment market.

What are my guarantees?

All policies offer an initial guaranteed cash sum that is payable on death or the end date of the policy provided all premiums have been paid.

How are regular bonuses determined?

Regular bonuses are normally set once a year although in extreme circumstances they may be changed more frequently. The amount of regular bonus is set at a level that takes account of the investments within the fund and the projected final payout on policies. The level is set with the intention of allowing Scottish Friendly to pay a final bonus. In addition, Scottish Friendly aims to ensure that the bonus level should not change dramatically from year to year. In severe market circumstances, such as a significant and prolonged fall in the stock market and/or interest rates, the regular bonus rate could fall to zero. Every year you will receive a statement that will provide you with details of any bonuses that have been added to your child's policy.

How are final bonuses determined?

A final bonus may be paid on the child's policy end date (or on death) and is paid on the guaranteed sum assured plus any regular bonuses. The actual final bonus (if any) will depend on the performance of the With-Profits fund. The final bonus could make up a significant part of the total payment although where the performance has been poor there may be no scope to pay a final bonus. Additionally, all bonuses are subject to smoothing and this is explained below.

What is smoothing?

The Scottish Friendly With-Profits fund is designed to smooth out some of the day- to-day risks associated with policies such as your child's. The effect of smoothing is to:

- reduce the differences in payouts between policies claiming at roughly the same time
- reduce the differences in payouts over time.

Smoothing works by the fund holding back a small amount of profit when returns are exceptionally strong and distributing a similar small amount when fund returns are poor.

Whilst smoothing can help to protect customers from short-term fluctuations in returns, it cannot protect against long-term and sustained falls in stock markets and/or interest rates.

How are business risks managed?

The fund is managed to maximise growth whilst limiting risk to an acceptable level, as well as meeting all legal and regulatory requirements. The risks the fund is exposed to include new business costs, administration costs, other business ventures and supporting guaranteed benefits for specific policyholders, should the assets set aside become unable to support it. Every year the Board will report to members confirming that the fund has been managed in accordance with its principles and practices, noting any discretion exercised under advice from the fund's With-Profits Actuary.

How much can I invest?

You can pay monthly or yearly premiums.

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

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

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.

How is my money invested?

Normally between 20% and 70% of the assets backing your child's policy will be invested in shares and property with the rest in cash, government and corporate bonds. The value of the underlying assets within the With-Profits fund is closely monitored against the amount required to pay guaranteed benefits. If the amount should fall close to the minimum value, the proportion of assets held in shares and property could be significantly reduced.

The investment strategy is reviewed at least once a year and the investment outlook and performance monitored at least monthly. The fund will be managed according to the full Principles and Practices of Financial Management available via our website or on request. You will be notified at least 3 months in advance of any changes to principles governing the fund. However the section of this fund that your payments will be exposed to invests predominantly if not solely in cash deposits. While this means you are exposed to less risk, growth potential is also less.

Investment performance is reflected in the plan through the addition of tax-free bonuses. Our policy is one of fairness to all policyholders and of paying bonuses which reflect our performance in terms of investment returns, mortality experience and costs. Once a bonus has been added, it cannot be taken away.

Scottish Friendly will always hold more assets than it needs to deliver the benefits promised to members. These support assets are also used to provide additional security and fund policy smoothing. Generally Scottish Friendly aims to ensure that these support assets are between 5% and 25% of the size of the With-Profits fund.

What are the charges?

As a traditional with-profits bond, the guaranteed minimum cash sum and all bonus rates are calculated after the deduction of all charges. This means that the bond does not have any fixed or explicit charges. An example of the expected deductions over the life of the bond is given in the table in the illustration on page 12. These are best estimates, based on recent experience. They could be higher or lower than this in the future which will have an effect on the child's final payout.

Can I cash in the Child Bond?

You may cash in the Child Bond at any time. However, if you cash in within the first 2 years, the child will get nothing back. If you cash in after the first 2 years, any return the child gets back may be less than the amount you put in. To cash in the Child Bond, you should write to Scottish Friendly at the address on page 13.

You can see examples of cash in values under 'How could the charges affect my investment?' on pages 11 and 12.

Payment of commission

Scottish Friendly will pay PMGI Limited (trading as Forces Mutual) a commission for introducing a Child Bond. The amount of commission will be 85% of the first year's premiums. For example, on a £25 per month investment, the total commission payable will be £255. Commission is paid out of policy charges. The payments do not affect the money paid into a given Child Bond.

Can I stop paying the 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 bond's life.

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; and
- 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 premiums for more than 12 months, you cannot start paying again and if you stop paying in the first two years, the bond will end and the child won't get anything back.

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

What if I die during the life of the bond?

If you die during the life of the bond, someone else can take responsibility for the Child Bond. If you were paying monthly or yearly, they can continue paying.

If payments are not continued in the event of your death, the plan can be made 'paid-up', or a cash in value may be paid to the child – see section 'Can I stop paying the premiums?'.

What if the child dies during the life of the bond?

If the child dies during the life of the bond, we will pay a tax-free lump sum to the child's estate. This will be the guaranteed minimum cash sum plus any regular bonuses we've added.

What might the child get back from the bond?			
Investor – aged 6 next birthday. Duration of the bond – 10 years			
Frequency	Amount invested	Total invested	Guaranteed minimum cash sum
Monthly	£25	£3,000	£2,609
Yearly	£270	£2,700	£2,413
Projected maturity values			
Annual growth rate	0.5%	3.5%	6.5%
Monthly	£2,550	£2,920	£3,340
Yearly	£2,300	£2,670	£3,110

- These figures above are only examples and are not guaranteed. They are not minimum or maximum amounts. The guaranteed minimum cash sum depends on your premium and the duration of the bond. What the child gets back depends on how your investment grows and on the tax treatment of the investment. The lower projected growth rate of 0.5% and the middle projected growth rate of 3.5% provides for a return which is less than the total investment you will make over a 10 year term. This is due to the effect of charges in the first two years and cost of life cover for the duration of the bond.
- The child could get back more or less than this.
- These yearly growth rates are our reasonable estimate of potential returns. They are subject to the maximum rates permitted by the Financial Conduct Authority. All figures include the deduction of the actual charges assumed on the bond.
- Do not forget that inflation would reduce what the child could buy in the future with the amounts shown.

Every year you will receive a statement that will provide you with details of any bonuses that have been added to your child's bond.

How could the charges affect my investment?

The illustration on the next page is based on a £25 monthly investment in the Child Bond for a child aged 6 next birthday at outset. The last two columns assume that investments will grow at 3.5% a year.

WARNING: If you cash in during the early years of the plan, the child could get back less than you have paid in.

At the end of year	Total paid in to date	Total actual deductions to date	Effect of deductions to date	What you might get back
1	£300	£300	£305	£0
2	£600	£324	£340	£281
3	£900	£344	£372	£576
4	£1,200	£365	£407	£881
5	£1,500	£387	£443	£1,190
10	£3,000	£516	£663	£2,920

What are the deductions for?

- The deductions include the cost of setting up the bond, expenses, life cover, any cash in charges and any other adjustments.
- The last line in the table shows that over the full life of the bond the effect of the total deductions could amount to £663.
- Putting it another way, leaving out the cost of life cover, this would have the same effect as bringing the investment growth down from 3.5% to -0.5% a year.

Can I change my mind?

Within your welcome pack, you'll receive notice of your right to change your mind and how to cancel. You'll then have 30 days to cancel your investment and we'll provide instructions letting you know how to do this. If you decide to cancel within the period, we'll give you your money back.

Who looks after my money?

Scottish Friendly manages the With-Profits fund. **You can read the Key Information Document provided and find out more information about this fund.**

Solvency II Directive information

Under this directive, we are required to provide you with a Solvency and Financial Condition Report. You can access this via our website at www.scottishfriendly.co.uk/customer-centre/solvency-two

What happens if Scottish Friendly becomes insolvent?

If you buy a Scottish Friendly Child Bond and we cannot pay the full amount due, you may be entitled to compensation under the Financial Services Compensation Scheme. The maximum level of compensation for claims against firms declared in default is 100% of the claim with no upper limit.

You can get further information from the Financial Services Compensation Scheme at: Financial Services Compensation Scheme, 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU. Tel 0800 678 1100**. www.fscs.org.uk

What about tax?

Your payments are invested in the Scottish Friendly With-Profits fund which does not pay income or corporation tax on any gains (other than tax on dividends from UK shares). When the bond comes to an end, the payout is normally free of income and capital gains tax. However, you may have to pay tax if you stop paying premiums and/or you subsequently cash in the bond before the end of the bond's life.

All references to taxation are to UK taxation and are issued on the basis of Scottish Friendly's understanding of current tax law and practice. The tax treatment of your plan depends on your individual circumstances and tax law may change in the future.

How to contact us

Here are our contact details if you need to ask us anything: Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ. Tel: 0333 323 5433*.

If you would like to receive this Product Guide in large print, braille or in another language please contact us on the details shown above above.

Other information

Your client category

We are required to categorise our clients and this determines the level of detail and information that you will receive. We will treat you as a 'Retail Client' in respect of the services we will provide you, which means that you will benefit from the highest level of consumer protection.

How to complain

If you wish to complain about any aspect of the service you have received, please contact us. Details can be found in the 'How to contact us' section above.

If you are not satisfied with our response to your complaint, you can contact the Financial Ombudsman Service at: Financial Ombudsman Service, Exchange Tower, Harbour Exchange Square, London E14 9SR. Tel: 0800 023 4567** or 0300 123 9123*.

Making a complaint won't affect your legal rights.

Language and law

The contractual terms and conditions and all communications in relation to this bond will be supplied in English.

In legal disputes, the law of Scotland will apply.

This booklet is a brief guide to the Key Features of this product. Full details are contained in the policy document, which is evidence of the legally binding contract between you and Scottish Friendly Assurance Society Limited.

Scottish Friendly

Scottish Friendly was founded in 1862 (formerly The City of Glasgow Friendly Society) and is an incorporated friendly society under the Friendly Societies Act 1992, registered in the United Kingdom at the address on page 13. Scottish Friendly's total funds under management are over £5 billion (as at 01/11/19).

Rules of the society

You can ask Scottish Friendly for a copy of its rules.

The Direct Debit Guarantee



This Guarantee is offered by all banks and building societies that accept instructions to pay Direct Debits.

If there are any changes to the amount, date or frequency of your Direct Debit Scottish Friendly will notify you 5 working days in advance of your account being debited or as otherwise agreed. If you request Scottish Friendly to collect a payment, confirmation of the amount and date will be given to you at the time of the request.

If an error is made in the payment of your Direct Debit, by Scottish Friendly or your bank or building society, you are entitled to a full and immediate refund of the amount paid from your bank or building society.

If you receive a refund you are not entitled to, you must pay it back when Scottish Friendly asks you to.

You can cancel a Direct Debit at any time by simply contacting your bank or building society. Written confirmation may be required. Please also notify Scottish Friendly.

*Calls cost no more than calls to numbers starting with 01 or 02 and if you are calling from a mobile phone, calls will count towards any inclusive minutes you have rather than being charged separately.

**Free from a UK landline.

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