PERSONAL INVESTMENT PLAN

YOUR GUIDE TO MAKING WITHDRAWALS

For plans opened since 28th June 2010 provided by
Halifax Financial Services

SCOTTISH WIDOWS

INTRODUCTION

You recently contacted us about making a withdrawal from your Personal Investment Plan. This guide provides you with information to help you decide whether this is the right decision for you or whether you should consider leaving your money invested.

Throughout this guide we've highlighted terms that could help you better understand your options, including:

- chargeable events
- top-slicing relief
- loyalty bonus.

Pages 3–5 of this guide will provide definitions for all of these terms, and we'll highlight them within the text by *italicising* them.

THINGS TO THINK ABOUT

Before making any withdrawals from your plan, you should consider accessing money you have held on deposit in savings.

The investment you made into your plan should be viewed over the medium to long-term, at least a five to ten year period, to help meet your financial objectives. Taking this approach aims to help smooth out the ups and downs of the stock market.

If you see a fall in the value of your plan because the stock market has fallen, you may be tempted to cash in some or all of your plan. This might stop any further losses but you might be missing the potential for further growth over the longer term. Moving out of an investment during a downturn may mean missing any recovery and therefore upturns in the market. If you don't need the money, you may be better leaving it invested. Of course, this may not be the case if the markets continue to fall.

The value of an investment isn't guaranteed and can go up and down depending on investment performance (and currency exchange rates where a fund invests overseas). You may get back less than you paid in.

A few things to think about before making your decision are:

- You'll lose any future investment growth on anything you take out of your plan.
- You may have some extra tax to pay when you take anything out of your plan.
- If you don't need all the money now, you could take what you need and leave the rest invested, or take a regular income from your plan if you need it.
- You could change the fund you are invested in instead of withdrawing anything from your plan.
- You may be eligible for a *loyalty bonus* in the future, which you would lose or reduce if you take withdrawals from your plan.

CHARGEABLE EVENT

When you make withdrawals from your bond you may have to pay extra tax if an event occurs and it results in a gain being made, HM Revenue & Customs (HMRC) call this a 'chargeable event'.

A gain may arise in the following circumstances:

- if income distributions or withdrawals in any year exceed your 5% tax deferred withdrawal allowance
- if you cash in the whole of your bond or individual policies
- if the bond pays out when someone dies
- an assignment (transfer of ownership) of your bond for money or money's worth
- any gain can reduce your entitlement to the personal allowance or age related personal allowances.

You should remember that the taxation of your bond is complex and ultimately depends on your personal circumstances. The law and HMRC practice are subject to change.

TOP-SLICING RELIEF

Top slicing is available to individuals who, before adding chargeable event gains to their income, are non, starting rate or basic rate taxpayers and who, after adding chargeable event gains to their income, become higher rate taxpayers because of adding those gains. *Top-slicing relief* can also benefit individuals who become additional rate taxpayers because of a chargeable event gain. Further guidance can be obtained from your financial adviser or tax office.

LOYALTY BONUS

Depending on how long you invest in the plan you may be eligible for a *loyalty bonus.* We work out the *loyalty bonus* based on the average daily plan value over a given period, as shown in the table below. We pay you the bonus by adding units to the plan, providing it's in force when the *loyalty bonus* is due. It will be calculated as follows:

Loyalty bonus due date	Percentage of average daily plan value used to calculate the bonus units
5th plan anniversary	0.5% of the average daily plan value up to the 5th plan anniversary
10th plan anniversary	0.75% of the average daily plan value between the 5th and 10th plan anniversaries
15th plan anniversary	1% of the average daily plan value between the 10th and 15th plan anniversaries

When you take money out of your plan, this will reduce the average fund value and therefore the amount of *loyalty bonus* payable.

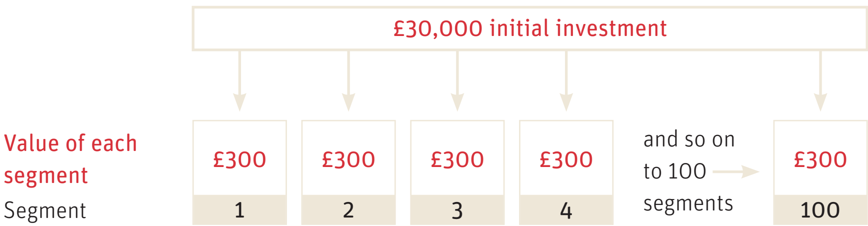
If you fully cash in and close your plan before a *loyalty bonus* is due, you will not receive the *loyalty bonus.*

In the event of death before the next *loyalty bonus* due date, a proportionate *loyalty bonus* will be added to the plan value.

INITIAL INVESTMENT

Your initial investment plan is invested across 100 identical plan segments. Withdrawals can be taken by cashing in these segments in different ways. The option you choose will affect the possibility of a tax liability becoming payable.

For example, if, after any initial charge has been deducted, £30,000 was invested, this would split into 100 segments of £300 each:



TAXATION

The proceeds of your bond are payable free of any personal liability to income tax at basic rate, or to capital gains tax. However, there may be an income tax charge at the difference between the basic rate and higher or additional rate of income tax if you're a higher or additional rate tax payer when the gain arises or if the gain results in you becoming a higher or additional rate tax payer.

There is no liability to the UK basic rate of tax because growth on the underlying investments is taxed via Corporation Tax, at a rate deemed equivalent to the UK basic rate of income tax. It is not possible to claim back any of the UK basic rate tax treated as paid on a gain.

The tax treatment of your bond is complicated and ultimately depends on your personal circumstances which may change in the future. Tax rules can also change.

The tax information in this guide is based on our current understanding of legislation and HMRC practice, which can change. If you're not sure about whether this affects you or if your plan is written under trust, it's advisable to discuss your tax position with a tax specialist such as a tax adviser or your tax office, before making any decisions.

AGE-RELATED ALLOWANCES

If you're entitled to an age-related tax allowance or married couple's allowance, and if the chargeable event gain added to your other income adds up to more than the annual income limit, your age-related allowance will be reduced accordingly. This means you may have to pay more tax on your other income.

TAX-DEFERRED ALLOWANCES

Regular and one-off withdrawals from the bond are treated as a return of capital and special tax rules apply. A tax charge may arise where the amounts withdrawn exceed your 5% tax deferred withdrawal allowance.

Your 5% tax deferred withdrawal allowance is 5% per policy year of the amount that you have invested in each individual policy. This 5% withdrawal allowance is cumulative. Any unused allowance can be carried forward to future years, subject to the total cumulative 5% allowance amount not exceeding 100% of the amount you have paid into your Bond.

Large withdrawals from your bond can result in an excessive and artificially high tax liability, it is recommended that you speak to your financial adviser or tax office before taking any withdrawals in excess of the 5% allowable allowance.

REDUCTION IN YEARLY MANAGEMENT CHARGES

If you invest £125,000 or more in your plan, we will reduce the YMC by 0.15% a year to, currently, 0.70% a year for each fund in which you invest. We'll do this by adding extra units to your plan at the end of each calendar year to reflect the reduction in the YMC.

Whether any reduction in the YMC should apply is determined by the total amount you've invested, minus any regular withdrawals and amounts cashed in, as at 31st December each year. We will add any extra units to your plan on this date, unless you've cashed in all of your plan, in which case no reduction in the YMC will apply.

If you add to your plan and this brings the total amount you've invested in any calendar year to £125,000 or more, then the reduction in the YMC will apply for that full calendar year, irrespective of when the additional investment was made. Should you make any withdrawals from your plan which result in the amount you invested falling below £125,000, no reduction will be applied for that calendar year.

As mentioned on page 6, your bond is initially made up of 100 segments. If, at the end of a calendar year you are entitled to a reduced YMC, the extra units will only be added to segments that remain live on 31st December.

Please also note that movements in the value of your plan are not taken into account when determining any reduction in the yearly management charge. The yearly management charge may increase in the future. There are other expenses on top of the yearly management charge that make up the total yearly fund charge, please see your key features for full details of all the charges that apply.

MAKING A WITHDRAWAL

There are four ways to take a withdrawal from your plan:

Option 1	Withdraw a specific amount of money using a combination of Options 2 & 3
Option 2	Take a lump sum or regular withdrawals by withdrawing an equal amount from all segments
Option 3	Cash in whole segments
Option 4	Withdraw all of your investment and close your plan

The minimum amount you can take from your plan is £50. You'll need to leave at least £500 in your plan after any withdrawal; otherwise we'll close it, and pay you the proceeds.

When taking a withdrawal you need to make it clear to us which option should be used. It's important that you understand the impact of each option before you tell us which one you've chosen. You can't change to a different option once we've accepted your instructions and made the payment.

Once you have read the following notes and decided which option is best for you, please complete and return the relevant form.

We'll calculate the withdrawal value on the day of the next valuation after we receive your completed withdrawal form, unless we need additional documentation or information. We normally value units at 12 noon each working day.

Please remember that any *loyalty bonus* may also be affected (see page 5).

OPTION 1

WITHDRAW A SPECIFIC AMOUNT OF MONEY USING A COMBINATION OF OPTIONS 2 & 3

If you want to withdraw a specific lump sum, we'll cash in enough whole plan segments (as described under Option 3) to just below the requested amount.

We'll then take an additional small partial withdrawal (as described under Option 2) from the remaining segments.

This may result in an immediate *chargeable event* gain and may be liable to income tax.

This is the default option – If you don't tell us clearly which option you'd like to use, we'll always use this option for paying you a lump sum withdrawal.

Reduction in yearly management charge

If you make a withdrawal where a number of segments are completely encashed and the total amount of the withdrawal takes the amount invested in the plan below the £125,000 threshold then no reduced yearly management charge will apply to these encashed segments.

However, if you make a withdrawal where a number of segments are completely encashed and the total amount of the withdrawal does not take the amount invested in the plan below the £125,000 threshold, then a proportionate reduction in the yearly management charge will apply to the encashed segments up to the date of the withdrawal.

OPTION 2

TAKE A LUMP SUM OR REGULAR WITHDRAWALS BY WITHDRAWING AN EQUAL AMOUNT FROM ALL SEGMENTS.

Under this option, we'll cash in an equal amount from each segment within your plan.

You can cash in part of your plan as a lump sum (minimum £50) and/or ask for regular withdrawal payments. If you take out a lump sum, you should look to review the level of any regular withdrawal payments.

Do you need to take regular withdrawals from your plan?

We always use option 2 to pay you regular withdrawals. You can take regular withdrawals (minimum £50 monthly, £250 half-yearly or £500 annually) from any fund. At least £500 must remain in your plan after each withdrawal is made.

The maximum regular withdrawals you can take in a plan year is 7.5% of the total amount invested in your plan.

If regular withdrawals are taken, they could be greater than any growth achieved.

Regular withdrawal payments are treated as a return of capital for tax purposes.

Do you want to change an existing regular withdrawal payment?

If you're already taking regular withdrawals from your plan and you wish to change the level or frequency of payments, please indicate on the withdrawal form.

Tax

Income distributions or regular withdrawals are treated as a return of capital and special tax rules apply. Any one-off withdrawals from the bond made by cancelling units across policies are treated as a return of capital and special tax rules apply. A tax charge may arise where withdrawals exceed your 5% tax-deferred withdrawal allowance.

EXAMPLE

Your initial £30,000 investment has increased in value to £36,000. You don't take any withdrawals until the fourth plan year, when you withdraw a lump sum of £18,000 using Option 2. This means that £180 is partially cashed in from across each of the 100 segments.

The figures given below are not indicative of actual or potential returns, do not take into consideration charges or potential reductions in yearly management charges and are used to illustrate the potential tax consequences.

£36,000 fund value

Value of each segment	£360	£360	£360	£360	and so on to 100 segments	£360
Segment	1	2	3	4		100
Partially cashed in across each segment	–£180	–£180	–£180	–£180		–£180
Amount remaining in each segment	£180	£180	£180	£180		£180

£180 partially cashed in from each of the 100 segments, leaving £180 remaining in each of the 100 segments

Because the partial withdrawal is made in the fourth plan year, the accumulated 5% *tax-deferred allowance* is £30,000 x 5% × 4 years = £6,000.

The amount withdrawn **in excess** of the tax-deferred allowance will be (£18,000 – £6,000) = £12,000.

Therefore the *chargeable event* will be £12,000.

Where partial withdrawals are made **within** the accumulated 5% tax-deferred allowance tax won't have to be paid immediately. However, there may be a future tax liability.

OPTION 3

CASH IN WHOLE SEGMENTS

Instead of cashing in part of each plan segment, you can choose to fully cash in whole segments. This will reduce the number of segments left in your plan.

Reduction in yearly management charge

If you make a withdrawal where a number of segments are completely encashed and the amount of the withdrawal takes the amount invested in the plan below the £125,000 threshold, no reduced yearly management charge will apply to these encashed segments.

However, if you make a withdrawal where a number of segments are completely encashed and the amount of the withdrawal does not take the amount invested in the plan below the £125,000 threshold, then a proportionate reduction in yearly management charge will apply to the encashed segments up to the date of the withdrawal.

Tax

When you fully cash in whole segments the *chargeable event* gain is calculated as:

Proceeds from withdrawal requested, plus previous partial withdrawals made from segments being cashed in

minus

Payments made into the segments being cashed in plus any previous *chargeable event* gains that have already occurred on the segments being cashed in

- This calculation gives the overall profit made on the withdrawn segments after taking into account any amounts that may have already been taxed. You may have to pay income tax on this profit.

Regular withdrawals and the 5% tax-deferred allowance after segments are cashed in

If whole segments have been fully cashed in then the 5% *tax-deferred allowance* across the plan will be proportionately reduced.

Maintaining/changing an existing regular withdrawal

If you continue to take regular withdrawals after you've cashed in whole segments this may result in a *chargeable event* gain if the total annual withdrawals (ie encashments plus any regular withdrawals) exceed the accumulated 5% *tax-deferred allowance.*

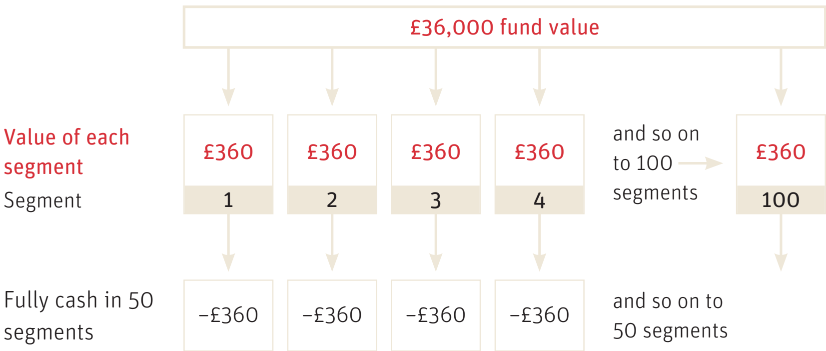
If you have an existing regular withdrawal facility in place on your plan and you make a lump sum withdrawal by cashing in whole segments, we will maintain your total regular withdrawal amount. This is unless you advise us of a change in the amount on the withdrawal form when you request the lump sum withdrawal. You should look to review the level of your regular withdrawal payments if you cash in whole segments.

EXAMPLE

Your initial investment of £30,000 has grown in value to £36,000. You don't take any withdrawals until the third plan year when you withdraw a lump sum of £18,000 using this option. There have been no previous withdrawals.

You fully cash in 50 whole segments each worth £360, to give you the total of £18,000. This means you still have 50 segments left.

The figures given are used to illustrate the potential tax consequences and are not indicative of actual or potential returns and do not take into consideration any charges or potential reductions in yearly management charges.



£360 fully cashed in from 50 of the 100 segments, leaving £360 in each of the remaining 50 segments

£18,000 is withdrawn by cashing in 50 segments

50 segments remain.

EXAMPLE (continued)

The profit on **each** segment cashed in will be:

Withdrawal proceeds	**£360**
Plus Previous withdrawals	Nil
Less Amounts paid in:	£300
Previous *chargeable event* gains:	Nil
Profit	**£60**

The total *chargeable event* gain will be £60 × 50 segments = **£3,000**.

As the example illustrates, for large withdrawals **in excess** of the accumulated 5% tax-deferred allowance fully cashing in whole segments may mean a lower tax liability at that time.

Where the amount you have requested cannot be funded by an exact number of segments, we will fully cash in sufficient segments to just below the requested amount.

For instance, if in the example the amount requested had been £18,200 we would fully cash in 50 segments to raise £18,000 (the maximum number of segments to raise just below the requested amount).

OPTION 4

WITHDRAW ALL OF YOUR INVESTMENT AND CLOSE YOUR PLAN

Before you decide to fully cash in and close your plan, have you considered the option of keeping the plan open and only taking what you actually need from your plan? Please refer back to the earlier part of this guide where we have covered the withdrawal options for taking money from your plan and the tax positions of each option.

During times when stock market conditions are unstable, you may see a fall in the value of your plan and you may be tempted to cash in your plan. However, although this might stop any further losses you may be missing the potential for further growth over the longer term. Moving out of an investment during a downturn may mean missing any upturns and therefore recovery in the market. If you don't need the money, it may be beneficial for you to leave it in the plan so it can have the potential to grow.

The plan has no fixed term so you can remain invested until you need access to it, however it's important to remember you should aim to remain invested for the medium to long term – at least five to ten years.

However, if you do decide to fully cash in and close your plan, all segments are cashed in. The value will be calculated on the day of the next valuation after we receive your completed request form, **except** where additional documentation or information is required.

If you decide to close your plan, no reduced yearly management charge will apply. If the plan is closed due to the death of the last life assured, a proportionate reduction in the yearly management charge may apply.

Please note, if cashing in your whole plan before a *loyalty bonus* is due; you would not receive the *loyalty bonus*.

However, in the event of death before the next *loyalty bonus* due date, a proportionate *loyalty bonus* will be added to the plan value.

Tax

When you fully cash in and close your plan the *chargeable event* gain is calculated as:

Proceeds from withdrawal requested, plus any previous partial withdrawals made from the plan

minus

Payments made into the plan plus any previous *chargeable event* gains that have already occurred on the plan

If previous withdrawals were taken on full segments then previous withdrawals and gains could also impact the *chargeable event* gain. These have not been included in this calculation.

This calculation gives the overall profit made on the plan after taking into account any amounts that may have already been taxed. You may have to pay income tax on this profit.

EXAMPLE

Your initial investment of £30,000 has increased in value to £36,000 and you withdraw the whole amount during the fourth year of the plan. There have been no previous withdrawals on the plan.

The figures given are used to illustrate the potential tax consequences and are not indicative of actual or potential returns and do not take into consideration any charges or potential reductions in yearly management charges.

The total *chargeable event* gain will be (£36,000 – £30,000) = **£6,000**.

This is an immediate *chargeable event* gain and a *chargeable event* certificate will be issued to you.

Our administration unit on **0800 141418** (lines are open 8am–6pm Mon–Fri and 9am–12.30pm on Saturday) will be happy to answer any questions you may have.

We can't, however, give advice on taxation matters; please refer to the section on 'Where can I go for further information?'

PLANS WRITTEN UNDER TRUST

Payments from plans written under trust should be made in accordance with the terms of the trust to ensure that beneficiaries' interests are protected, the trustees are not in breach of trust and any tax planning benefits are not affected.

We would only look to make payment in accordance with these terms and therefore initially to the trustees having received their written agreement. Payments to trustees would normally be made to a designated trustee account, where all trustees are joint signatories.

Special tax and administrative rules apply where the plan is held under trust or owned by personal representatives. If this applies to your plan then you should seek further guidance from your professional advisers.

COMPENSATION

If you have received advice from an adviser they will have recommended products that are suitable for you. You have a legal right to compensation if, at any time, we or another authority decide that you've bought a plan that wasn't suitable for your needs at that time.

Your bond with Halifax Financial Services is fully covered by the Financial Services Compensation Scheme. More information about compensation arrangements is available from the Financial Services Compensation Scheme, who can be contacted on **0800 678 1100** or **0207 741 4100** or via their website at **www.fscs.org.uk**

WHERE CAN I GO FOR FURTHER INFORMATION?

If you require further information or guidance we recommend that you speak to a suitably qualified professional adviser such as an accountant or tax adviser. You can also obtain further information from your local tax office.

Helpsheet HS320: Gains on UK life insurance policies is particularly useful and can be downloaded from **www.gov.uk** The taxation of your plan is complex and ultimately depends on your personal circumstances.

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice at the time of going to print. You should note, however, that we cannot take upon ourselves the role of individual, trustee or corporate adviser.

Independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given. The law and HM Revenue & Customs practice are subject to change.

We are committed to meeting the needs of all our customers. For visually impaired customers, we can provide documents in large print, Braille or on audio cassette. Please speak to a member of staff.

If you would like any advice on your Personal Investment Plan you can find an adviser in your local area, at **www.unbiased.co.uk** You can also visit **www.moneyadviceservice.org.uk** which provides free impartial money advice on a range of subjects. Our administration unit on **0800 141 418** (lines are open 8am–6pm Mon–Fri and 9am–12.30pm on Saturday) will also be happy to answer any questions you may have, although will not be able to provide financial advice.

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