

Security and Risk

The level of security depends upon the type of investment and the viability of the institution offering it. Some institutions may have a credit rating eg. AAA to indicate their security. This is a guide only and does not guarantee a return of money. No matter what the level of security offered, losses can occur (see Early Withdrawal or Sale).

Some common fixed interest investments and offering institutions are as follows.

Debentures - These are usually issued by finance companies often wholly owned by banks or listed companies. They are secured by some or all of the assets of the company including mortgage investments (see NICRI leaflet - Debentures)

Unsecured notes - These are a higher risk investment than debentures as they are not specifically secured. They are usually offered as an alternative to debentures by similar companies.

Bonds - The level of security differs with the offering institution i.e. Commonwealth Government guaranteed, State Government guaranteed or guaranteed by a company usually listed on the stock exchange. Some banks now offer 'bonds' that have the same level of security as their bank accounts.

Investing with Safety

- Fixed interest investments have a risk factor which should be understood and accepted before investing. **Investments offering a higher return usually have a higher risk.**
- Before investing money choose the term of the investment carefully. Check that money is not anticipated to be required before maturity.
- If fixed interest is the only investment held it is wise to spread it across different maturity dates and different institutions.
- An option for investing could include dividing the available sum equally over a number of years and on each maturity date renewing for the longest term chosen. At the end of the first cycle funds mature annually which can be simply renewed.

Indirect investment in fixed interest is covered in a separate NICRI leaflet called Bond Trusts. These are unit trusts that invest and trade in fixed interest investments.

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National Information Centre on
Retirement Investments Inc.

Fixed Interest Investments

(Excluding Term Deposits)



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Investment Product Series

INFORMATION CURRENT FROM 23/11/09



What is Fixed Interest?

A fixed interest investment is an agreement with an institution to leave funds with them for a set period of time. In return they agree to pay interest at a specified rate for that period. The original investment amount is returned at maturity.

There are various types of fixed interest investments with different terms, conditions and levels of security (risk). These include debentures, unsecured notes, bonds and deposits which are available from:

- finance companies;
- public companies;
- Government & Government business enterprises; and
- banks and other financial institutions.

For details on fixed term investments with banks, building societies and credit unions refer to NICRI's leaflet - *Term Deposits*.

Fixed interest investments are able to provide a known amount of income paid in regular instalments.

Some fixed interest investments may allow a return of part of the original capital plus interest on a regular basis. This provides a greater 'income' than just receiving interest. However, the amount of interest earned will reduce as the capital reduces and in time the money invested will be used up.

Features

- A set interest rate is paid and, with some products, fixed for a contracted term.
- Investment terms range up to 10 years.
- No entry, exit or management fees are charged if held to maturity.
- Interest is generally calculated daily and paid periodically or at maturity. If more frequent payments are chosen, eg. monthly or quarterly, a lower interest rate may apply.
- If interest rates fall, investments will generally continue to earn the agreed rate until maturity. If sold before maturity they may earn a capital gain.
- Interest may be automatically reinvested (a useful savings method), paid into an account or paid by cheque.
- A minimum investment amount is required but may be as little as \$1000.

But Remember...

- Money is usually not available until maturity (see early withdrawal or sale).
- If interest rates rise investors must generally accept the agreed return until maturity or, if sold, incur a capital loss.
- Money is not readily available in an emergency.
- No capital growth if held to maturity.

Early Withdrawal or Sale

If money is required early there is no obligation for the institution to release it. If it is released most institutions impose a penalty. This ranges from a reduction in the rate of interest for the whole period to a fixed dollar amount. A written request stating the reason for release is usually required.

Alternatively, some fixed interest investments may be sold through a specialised market. Proceeds from the sale may be more or less than the original amount invested. This occurs due to changes in interest rates.

Taxation

Interest is fully assessable for income tax purposes in the year it is paid. If interest is deferred for more than one year a portion is assessable in each year. Capital gains tax may be payable if a profit is made on sale.

Government Income Support

The full balance of the investment is assessed under the assets test.

Fixed interest investments are assessed for the income test under the deeming rules.

For further details contact a Centrelink Financial Information Service Officer.