



Savings Bonds

A Safe Way to Save More

Karen: Savings Bonds are a Great Investment for Pension Refunds

Karen, a 44 year old marketing professional, is a recent convert to savings bonds. In 2009, when the company she had been working for was downsizing, Karen agreed to take a separation package.

During the process, the human resources manager suggested she consider investing her refunded pension plan contributions in savings bonds so she would not have to pay 25% withholding tax. Karen took the HR manager's suggestion and used her pension refund to purchase the \$50,000 maximum in savings bonds she was allowed. That maximum has now been increased to \$100,000 per person and \$200,000 for joint holders.

Linel Franklin, Senior Operations Officer at the Central Bank of Barbados, confirms that Karen's scenario is quite common. She says that savings bonds are ideal for people who have left jobs and receive refunds of their pension plan contributions because that money, when invested in savings bonds, is not subject to withholding tax. She acknowledges, however, that there are some special terms for people buying savings bonds with these funds.

"Under regular conditions, purchasers go to a commercial bank and submit their application there, but people who are investing a refund of pension plan contributions must come directly to the Central Bank. There is also the stipulation that in order for them to reap the tax exemptions investing in savings bonds offers this type of investor, they must hold them until maturity. Other bondholders are not subject to this requirement."

Explaining further, Franklin says that although savings bonds have a maturity period of five years, bondholders, except those investing money from refunded pension plan contributions, are not obligated to keep them for the full five years, "That's a unique feature about savings bonds: they are near cash instruments. That means that if at any point while you have them you need money, you can cash them in." She elaborates, "It's a simple process. You take the certificate to a commercial bank along with photo ID, tell them you want to surrender some or all of your savings bonds and you get the money. You get back your initial investment as well as the interest the savings bonds earned during the period you held them."

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