HSBC PENSION ANALYSIS

This report is written for former UK-based HSBC employees who were members of the HSBC bank pension scheme.

In our experience, many employees leave their jobs and do not take a decision on their pensions and only decide to review their pensions as they approach retirement. If you are one of those people, deferring the decision on your pension can affect your retirement significantly, especially if you were employed by HSBC UK.

After reviewing thousands of pensions schemes, we occasionally come across one where we feel the need to alert the members to some of the characteristics within the scheme, so they can make an informed decision. One such scheme is the HSBC Pension scheme.

Retirement options are limited

Based on our research, the HSBC pension scheme **has very little**, if any flexibility in terms of the options available to you during retirement. If you want to remain in the scheme at your retirement, the only option you have within the scheme is to take the 25% tax-free element of your pension as a lump sum at retirement and purchase an annuity with the remaining funds.

This is different to most other modern pension schemes and reduces the options you could have in other schemes. But what if you won't want to buy an annuity? This is an obvious question, but there are many other questions you should be asking as well. Life isn't linear and so with ups and downs your financial needs change too. How is your money invested before you choose to access it? What happens if you want to retire before this date? What if you have enough savings to not draw your pensions for the first few years in retirement?

We believe the lack of flexibility within the HSBC pension scheme is worth highlighting so you can make an informed decision on the best outcome for your situation.

Pension freedoms, otherwise known as the new flexibility rules that apply post 2016 mean that within modern pensions you are not forced to sell your pension in return for an annuity and can flexibly withdraw a regular amount or ad-hoc amounts depending on your requirements. You can take single large payments or smaller regular payments or a combination of to fund your lifestyle the way you want. You cannot do any of this within the HSBC pension.

Purchasing an annuity provides you with a guaranteed income for life. This can be very helpful for people in certain situations, but in our view, annuities are not suitable for everybody.

This is because:

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1) Annuity income is fixed and taxable, which means there is no flexibility to make tax-efficient withdrawals.

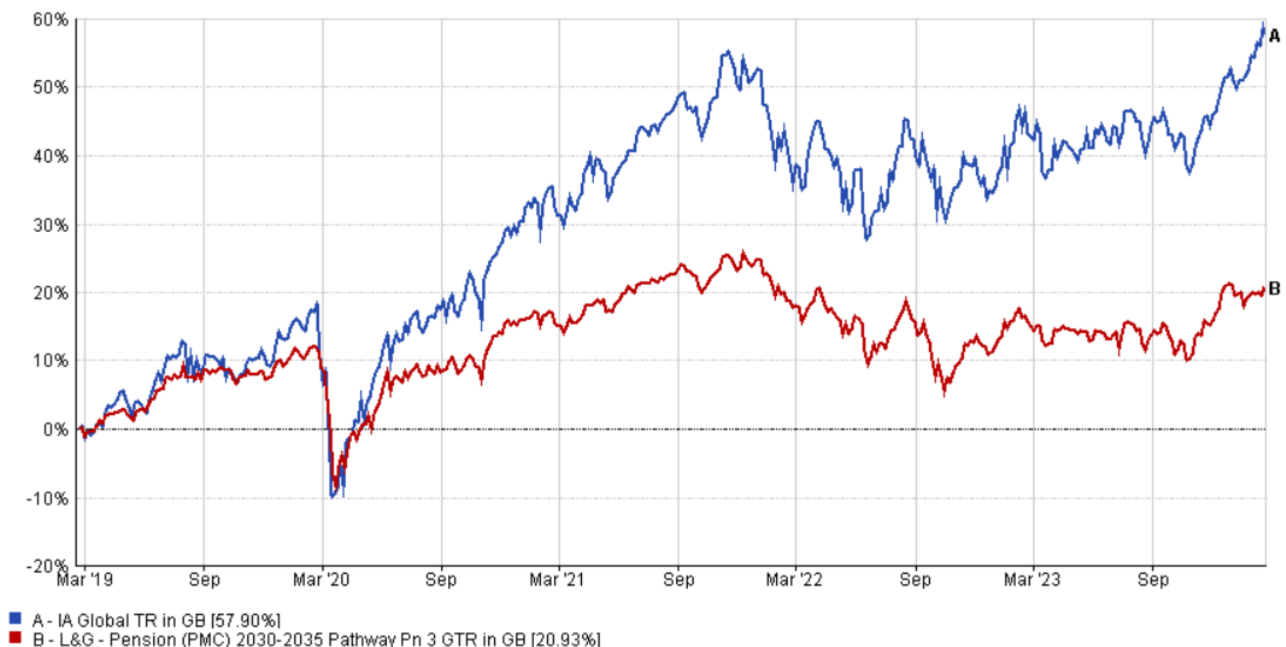
2) Annuity rates are based on interest rates and life expectancy. In theory, you will get a far better annuity rate as a 75 year old than you would as a 60 year old. Therefore, buying an annuity may not give you the best rate at retirement if you could not wait a few more years.

3) Flexible pensions can be invested for growth. Over the long-term that gives potential to fund larger withdrawals in the future unlike an annuity where the income is fixed at the outset.

4) An annuity is guaranteed income on the life assured. Once the annuity holder dies, the annuity simply ceases to exist regardless of how many years the annuity policy has run. You can purchase a spousal income, but it costs extra. On the other hand, the funds in a modern pension are typically outside your estate and can be passed onto your beneficiaries without incurring any inheritance tax.

Default fund choice may not be suitable for you

Another factor we found with the HSBC pension is the underlying funds that it invests in by default which invests for a 'Target Retirement Age'. Target Dated Funds are often called "Lifestyling" Funds where they automatically alter the allocation from equities towards bonds as you approach retirement age. This is potentially a good idea when you were required to purchase an annuity with your pension at retirement and therefore still offered by HSBC as their default fund. Given pension freedoms exist and now you do not have to purchase an annuity we feel this investment strategy may not be appropriate for everydody. Why? The strategy does not consider your individual circumstances or the current market conditions and changes your asset mix you when you do not need it or when doing is not efficient due to the prevailing interest rate level in the market. For someone retiring between 2030 and 2035 the chart below highlights the performance difference of being invested in a lifestyled portfolio versus a Global Equity index over the last 5 years



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The definition of “risk” provided by these Target Date fund or Lifestyle funds is volatility. The funds “de-risk” by moving the investment strategy to lower volatile cash and bonds. The problem with that strategy is that it is also “de-growth”. We believe these default funds do not provide the best outcomes for the individual investor and potentially increase the risk of investors running out of money in their retirement.

We believe that the HSBC pension scheme is potentially not providing the best outcome for members. This is because of both the lack of flexibility in the HSBC retirement options AND the default investment funds using Target Date or Lifestyle investment strategies.

Please Note: *The analysis above only covers the general scheme related features. The overall features of your pension can not be fully analyzed without understanding the individual policy details.*

We at Permanent Wealth Partners LTD would be delighted to help you understand the complexities around your HSBC pension policy and avoid these pitfalls **free of any initial charge**: https://calendly.com/adamwalkom/hsbc-pension-review

****Please remember the value of investments, and any income from them, can fall as well as rise so you could get back less than you invest.****

Tax treatment varies according to individual circumstances and is subject to change. Estate Planning, Inheritance Tax Planning and Tax Planning are not regulated by the Financial Conduct Authority.