Pension blog for new joiners

What I wish I had known sooner about saving for the future.

As a member of the Pension Scheme Executive (PSE) within the Bank, I regularly speak to Scheme members, answering their long-term savings questions and hearing their stories.

It's interesting how life events or new job experiences can completely change someone's perspective on their finances. Take the example of a person I recently spoke to who began their career in the creative industry, focusing mainly on covering day-to-day expenses like rent, bills, and setting aside a bit for occasional pleasures like travel. With an unpredictable income and no automatic pension enrolment, saving for the long term wasn't really on their radar.

Then, after moving into a role at the Bank, everything shifted. They were automatically enrolled into the HSBC Bank (UK) Pension Scheme (the Scheme for short), with the Bank contributing to their Defined Contribution (DC) pension pot. It was only after receiving a prompt from the Scheme to complete a new joiner checklist that they began to really think about their financial future.

> **Exploring the resources on the Scheme's website, futurefocus, opened their eyes to the importance of long-term savings and helped reshape their financial priorities.**

Below are five things they wished they had known earlier about pensions and long-term saving.

01 The younger you start saving the less you need to save

This is because your savings could benefit from compounding growth. Understanding the magic of compound growth can be a game-changer, especially when it comes to long-term pension savings.

Imagine you invest a small amount of money. Over time, this money earns interest. In the next period, you earn interest not just on your initial investment but also on the interest that has been added to it. This cycle continues, and as each year passes, your investment growth gets an extra boost.

Let's break it down with an example. Suppose you invest £1,000 at an annual return of 5%. After the first year, you'd have £1,050. In the second year, you'd earn interest on £1,050, not just the original £1,000, bringing your total to £1,102.50. This might seem like a modest increase at first, but starting early boosts this effect because it gives your money more years to grow and more time for your investments to compound. This is why young savers have an advantage—they can benefit from decades of compound growth.

For member of the Scheme, the benefits for your DC pension pot are even greater. This is because, on top of the core contribution from the Bank, any contributions that you make are also matched pound-for-pound by the Bank (up to a maximum of 7% of my Pensionable Salary). The contributions also benefit from income tax relief, so it costs less than you might think to save into the Scheme.

02 It's important to understand the difference between savings products

When it comes to saving for the future, understanding the differences between a DC pension scheme, an Individual Savings Account (ISA), and a regular bank account is crucial. Each option has distinct features, benefits, and tax implications, which can significantly impact your financial strategy and long-term savings.

A regular bank account offers easy access to your money, but it might give you less favourable returns. Interest earned on savings in a bank account is subject to income tax once it is over your Personal Savings Allowance. While bank accounts are ideal for everyday transactions and emergency funds, they don't offer the same tax advantages as pensions and ISAs.

ISAs also offer flexibility around when and how you can take your money out. You can withdraw money at any time without tax penalties. Savings into an ISA are made from your take home pay after tax, so there is no income tax relief. However, any interest, dividends, or capital gains earned within the ISA are tax-free. There are various types of ISAs, including Cash ISAs and Stocks & Shares ISAs. The annual contribution limit is currently £20,000.

A Lifetime ISA is slightly different. You can use a Lifetime ISA to buy your first home or save for later life. You must be under 40 to open a Lifetime ISA. You can put in up to £4,000 each year, until you're 50. You must make your first payment into your ISA before you're 40.

The government will add a 25% bonus to your savings, up to a maximum of £1,000 per year. The Lifetime ISA limit of £4,000 counts towards your annual ISA limit of £20,000

When you turn 50, you will not be able to pay into your Lifetime ISA or earn the 25% bonus. Your account will stay open and your savings will still earn interest or investment returns.

You can withdraw money from your ISA if you're:

- buying your first home (if the property costs £450,000 or less and you buy the property at least 12 months after you make your first payment into the Lifetime ISA)
- aged 60 or over
- terminally ill, with less than 12 months to live

You'll pay a withdrawal charge of 25% if you withdraw your savings for any other reason.

A DC pension scheme (like the HSBC Scheme) is specifically designed to provide income in retirement. Contributions into a pension scheme are tax-free, up to certain limits and because employers (like the Bank) also contribute, this boosts the overall savings. Investment growth within pension schemes is also mostly tax-free, allowing your pension savings to grow more quickly over time. It also important to know that there are some restrictions on when and how you can access your money. Usually, you can't withdraw your pension savings until you reach the minimum retirement age, which is currently 55 (rising to 57 in 2028). When you decide to retire, you can normally take up to 25% of your pension savings as a tax-free lump sum, with the remaining 75% subject to income tax.

03 Your Scheme investments could be helping the planet

The Scheme has set important goals to achieve net zero greenhouse gas emissions across its investment portfolio by 2050, in line with the net zero goals of the Paris Agreement. The Scheme is also making wider efforts to manage the impact of climate change on through its investments. This includes:

- targeting a real economy emissions reduction interim target of 50% by 2030 or sooner for its equity and corporate bond mandates, in line with the findings of the most recent Intergovernmental Panel on Climate Change (IPCC) report 1,2
- having the ambition of achieving all of its corporate bond and equity investments being fully aligned to the goals of the Paris Agreement by 2030
- enhancing its engagement and stewardship efforts through the Scheme's asset managers

You can find out more on the Managing ESG risks page on futurefocus at https://futurefocus.staff.hsbc.co.uk.

04 You don’t need to worry about fees in the Scheme

Some people worry that pensions scheme are a rip-off or a scam, because they charge fees to invest your money. The good news is that the Bank pays all the main administration and investment management fees for all the investment options available in the Scheme.

There are other investment costs borne by members, from time to time, when funds are bought and sold called transaction costs. For example, when automatic investment switches made within the Targeted Investment Strategies or investment switches made within Freechoice. Any transaction costs are deducted from the assets of the fund(s) and reflected in the daily price of the fund(s) used for your DC pension pots.

05 Investment diversification is important

You may have heard your friends or family talking about the benefits of investing in property, like buy to let property. While property has been a lucrative investment, it is also illiquid, (this means that it can’t be easily and quickly sold or exchanged for cash) and its worth considering the risks of having all your eggs in one basket. If you choose one of the Scheme’s Targeted Investment Strategies to investment your DC pension pot, you benefit from investment diversification. Investment diversification helps reduce investment risk because your money is invested in lots of different types of investments including, for example, equities (company shares), bonds (Government and company loans), and private markets, reducing the risk of significant loss from any single type of investment. Additionally, the Scheme benefits from professional investment advisers and has access to investment opportunities that individual investors might not.

In summary

Getting to grips with the pension basics can really help you to feel more confident about your financial future. I hope sharing stories from members might also help other savers, especially if you are thinking about where you might put aside some money for the long term.

If you want to find out more about the Scheme and your benefits go to Scheme website, futurefocus at https://futurefocus.staff.hsbc.co.uk.

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