Solving the pensions puzzle

What are the different types of pensions and why is it important to know the difference?

As a member of the Pension Scheme Executive (PSE) within the Bank, I regularly talk with Scheme members as well as friends and colleagues about a range of pensions issues. In one of my recent pensions conversations, I realised about halfway through it that we were on completely different pages. While I was enthusiastically discussing my workplace pension, she thought we were talking about the ins and outs of the State Pension. It struck me then how easily wires can get crossed when it comes to pensions in the UK. With several types of pensions available, it's no wonder confusion abounds. Let's unravel the mystery and explore the key differences between pension types, so you can navigate your retirement planning with confidence.

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The HSBC Bank (UK) Pension Scheme

Pensions article for new joiners

State pension

When you read or hear about things like the pension "triple lock" this applies to the State Pension. It's worth knowing the basics of how it works:

- It's a regular pension payment from the government when you reach State Pension Age. It's based on how long you've worked and paid (or are credited with) National Insurance (NI).
- The full amount of new State Pension is **£221.20 a week** (for the 2024/25 tax year). The "triple lock" describes the way that it is increased in April each year by the maximum of three measures: the rate of inflation (measured by the consumer price index); average wage growth (the average weekly earnings index); or 2.5%.
- Not everyone gets the same amount. How much you get depends on your NI record. To get any new State Pension, you will normally need at least 10 'qualifying years' on your NI record. Generally, you build up your record by paying NI contributions or getting NI credits.

Whilst the State Pension could be a significant part of your retirement income, it may not be enough on its own and we don't know what it will be in 20 or 30 years' time, so it's also worth knowing about two other types of pension; workplace pensions and personal pensions.

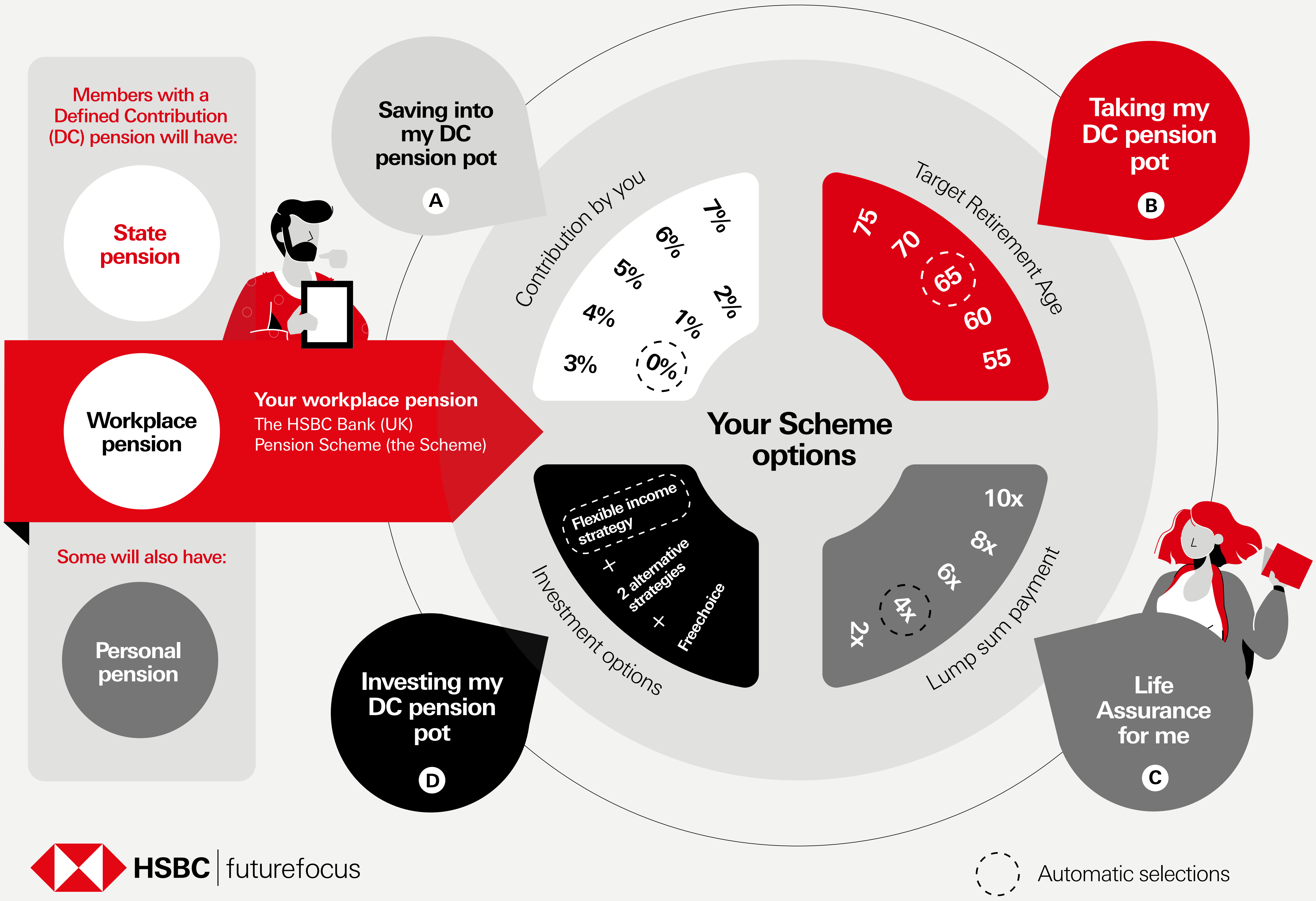
Workplace pensions

A workplace pension is a way of saving for your retirement that's arranged by your employer. Your employer has to offer a workplace pension scheme by law. They also have to automatically enrol anyone who's eligible. If you are eligible for automatic enrolment, your employer has to make contributions into the scheme. Most workplace pensions for new hires are now Defined Contribution (DC) pension schemes:

Defined Contribution (DC) pension schemes

- In a DC pension scheme, the contributions paid into your DC pension pot by your employer and you are invested with the aim that they grow over the period until your retirement.
- When you come to retire, you will have a range of options for how to take your DC pension pot, including taking it all as a cash lump sum, buying a regular income for life, taking a flexible income or a combination of these options.
- New joiners to the HSBC group are automatically enrolled the HSBC Bank (UK) Pension Scheme (the Scheme). This is a DC pension scheme. To get you started, your DC pension pot in the Scheme is set up with a few automatic (also called 'default') selections, which you can change whenever you want to. These automatic selections include things like how we invest your DC pension pot and the age we expect you to retire. They are summarised in the diagram and the notes overleaf:

Your workplace pension and the automatic selections



More about your Scheme options and the automatic selections

A HSBC automatically pays a core contributions of 10% of your first £27,300 pensionable salary then 9% of anything over £27,300 up to the Scheme Earnings Cap (SEC) (currently £186,000) even if you pay nothing. You have the option to pay into your DC pension pot and the Bank will also make matching contributions, up to 7% of your pensionable salary. You can change your contributions in My Choice at any time.

B Your Target Retirement Age (TRA) is automatically set as 65 when you first join the Scheme, but you can choose the age you want to retire, currently any age between 55 (increasing to 57 from 2028) and 75. If you're not planning on retiring at 65, it's important you update your chosen TRA on My Pension.

C Your Life Assurance is automatically set as a lump sum payment of 4x benefit salary in the event of your death. This can be increased in steps up to a benefit of 10x (if you pay more) or decreased to 2x in My Choice.

D Your DC pension pot is automatically invested in the Flexible Income Strategy when you first join the Scheme. You can choose your own investment strategy at any time on My Pension. To find out more about your Scheme investment options, read the Investment guide for your DC pension pot.

Personal pensions

Anyone who wants to save for retirement also has the option to set up a personal pension offered by a personal pension provider. Personal pensions are also usually DC pension arrangements where the money that you pay-in is invested with the aim that it grows over the years until you take it at retirement. Your pension provider can help you to decide where to invest your money and will manage your personal pension for you on a day-to-day basis. A personal pension is set up as an individual contract between you and your pension provider.

You can set up a personal pension if you don't have access to a workplace pension or even if you are also a member of a workplace pension. Some members may do this, for example, to get access to more investment options or to spread risk.

Some employers use "Group Personal Pensions" as their workplace pension. These are setup as a s series of individual contracts between members and a pension provider. Like individual personal pensions the provider will manage your personal pension for you on a day-to-day basis.

In summary

Over your career, you may build up different types of pensions so it's worth knowing how they work and the important differences between them. This will help you to keep track of what you have already earned and will also help you to work out in you are on target for the retirement that you want.

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