<u>Email Response from HSBC</u>

From: HSBC Pension Operations Manager *[Name Redacted]*
Sent: 07 February 2025 15:43
To: PERTEGHELLA, Manuela (MP) <manuela.perteghella.mp@parliament.uk>
Subject: HSBC - State Deduction

Dear Dr Perteghella,

Thank you for your recent letter for which Ian Stuart has asked me to respond on his behalf since it relates to the state deduction (in respect of your constituent [redacted]).

The Bank remains very aware of the issues being presented by you and others in relation to the State Deduction. It has responded to many such enquiries over several years and provided detailed advice to various interested parties and individuals over that period. The issue has also been considered at the last six AGMs with a further resolution by the campaign group due to be presented and voted upon at the 2025 AGM.

The Bank has taken extensive advice and fully engaged with all the arguments that have been presented throughout that time. That process has included consideration of the specifics of integrating state and occupational pension schemes to target an overall level of pension. The conclusion is that the State Deduction and integration of state benefits is an accepted feature of many pension schemes including schemes or sections like the post 1974 Midland Bank section that were non-contributory final salary arrangements.

There is extensive legislation in place that has evolved over the years to facilitate the targeting of an overall level of pension benefit. That legislation also prohibits any form of discrimination, and rightly so. The Bank fully supports this and has applied significant resources to ensure compliance and believes that the extent and result of that effort has been fairly summarised in our previous advice:

The Bank does not accept that the inclusion of the state deduction gives rise to potential or actual indirect discrimination. The state deduction forms part of the pension benefit calculation for all members of the Midland Bank section; it applies to and affects all members equally irrespective of gender or other protected characteristics. It does not put members who share a particular characteristic at a disadvantage. The targeting of an overall level of benefits by integrating occupational pension and state pension benefits is a legitimate aim that has been recognised and facilitated over decades. The relevant law recognises this, and that final salary pension benefits operate by reference to particular factors such as age, length of service, pensionable salary and gender.

The Bank has given due consideration to the operation of the state deduction in a manner that is both fair and proportionate based on the law and practice. The Midland Bank section remains a valuable pension benefit: members were not required to contribute to this section to provide for their benefits for so long as the state deduction was accruing. Furthermore, the Bank does not consider that there are alternative means of achieving its aim in a more proportionate way, or indeed in a way which would remove the inequality as between lower and higher paid members. Removal of the state deduction completely or by degrees would also be unfair and potentially discriminatory to other Midland Bank section members (who would not receive an equivalent enhancement). This would be contrary to the views that have been expressed previously by the DWP in relation to the retention of integration mechanisms and would be unfair and onerous for other relevant stakeholders who would be presented with significant unforeseen liabilities.

In 2020, the Equality & Human Rights Commission rejected the claim by those seeking to have the State Deduction removed on grounds that it is discriminatory, thereby confirming that its use is lawful. The findings of the Exeter University law lecturers referred to in your constituent's email reached the same conclusion. For the reasons cited above it is maintained that the State Deduction is both lawful and fair.

There is a significant body of information which now exists and is publicly available that addresses all the various aspects of the matter. The Board's response to the latest resolution can be read in Appendix 4 of the AGM Notice which can be accessed at www.hsbc.com/agm.

In regard to any specific concerns over the adequacy of the information provided to Midland Bank section members I can advise that this was considered by the scheme Trustee with its advisers, which are independent from the Bank. This involved a detailed review of the adequacy of the information received by members, referring to all the information provided on the State Deduction over several decades. The conclusion was that members had been kept suitably informed of the State Deduction in accordance with the relevant legislation. Please see the letter from the Trustee detailing its findings. The Bank also considered this issue with its advisers and reached the same conclusion.

It is also important to understand how the State Deduction operates in practice. It is one of a number of recognised mechanisms used to facilitate the integration of private sector pension schemes and state benefits and has been a feature of the Post 1974 Section of the Scheme since its introduction in 1975. The State Deduction takes account of the fact that employees would usually receive a pension from the UK Government at their State Pension Age. Only when the state pension commences does the State Deduction come into operation and reduce the amount paid by the Scheme. As such it does not result in a net reduction in the overall targeted level of pension that is paid to members. This is consistent with the aim that members would continue to receive an overall pension level throughout retirement (subject to minimum employment terms and pension increases). This form of integration with the state system was a common feature in final salary schemes introduced at that time.

I would like to take the opportunity to also highlight that we are committed to supporting current and former employees who are most in need. The HSBC Support Fund aims to offer financial support for HSBC pensioners, their partners and dependents, as well as current and former employees in the UK. Further details if required can be sought from the administrators of the HSBC Support Fund, the Bank Worker's Charity, on 0800 0234 834 or via email at hello@bwcharity.org.uk.

I hope the above helps to clarity the Bank's position on this matter but if I can be of any further assistance please let me know.

Kind regards,

[Name Redacted]

Pension Operations Manager | Performance & Reward, UK
HSBC Global Services (UK)
Level 5, 1 Centenary Square, Birmingham. B1 1HQ