

# HSBC Onshore Investment Bond – Select

Product Brochure

# What's in this brochure

## Contents

Introduction	3
Benefits at a glance	4
Direct investment	5
Simplicity	5
Transparency	6
Competitive pricing	7
Tax treatment	8-9
About us	10

## **This product brochure explains the HSBC Onshore Investment Bond – Select.**

It is intended solely for customers working with their adviser who will guide them on the merits and suitability of this Bond and the related investment approach. HSBC Life (UK) Limited, the provider of this Bond, does not give investment advice.

You should also read the following documents:

- Key Features Document – explains key information about the Bond
- Policy Document – sets out all of the Bond's terms and conditions

Please also refer to the terms you have agreed separately with your adviser for the provision of advisory services.

Your adviser will need to access the HSBC Life Investments website (HSBC extranet) to manage this investment on your behalf.

HSBC Life does not recommend any of the funds which are available for investment in the Bond. All funds are selected by customers at their own risk.

# Introducing the Onshore Investment Bond – Select

Traditionally, the mainstream choice for investors seeking professionally managed funds has been between insurance based products (investment bonds) and collective investments such as unit trusts and open-ended investment companies (OEICs).

The HSBC Onshore Investment Bond – Select combines the benefits of these investment choices to provide a tax efficient investment at minimal administration cost. It allows you to hold collective investments within an investment bond for flexibility and tax planning purposes and, as these collective investments are held directly, you can maintain a consistent strategy across an overall investment portfolio.

Through access to the HSBC extranet, your adviser can select and manage your fund allocation online, or you can choose one of our automated options for investment management.

Your adviser will guide you on suitability but generally this investment is designed for investors looking for any of the following:

- ▶ a professionally managed portfolio of collective investment schemes rather than a direct investment in stocks and shares,
- ▶ competitively priced investment administration and a flexible, transparent charging structure,
- ▶ ability to influence the timing of any tax liability on your portfolio,
- ▶ control of capital whilst enabling effective planning for inheritance tax,
- ▶ a tax-efficient way to draw income from an investment portfolio,
- ▶ a long term investment for trustees investing a trust fund.

**It is not designed for non-taxpayers, non-UK residents and short-term (less than 5 years) investors.**

**The value of investments can fall as well as rise and you may not get back what you invested. For some investments this can also happen as a result of exchange rate fluctuations as shares and funds may have an exposure to overseas markets. HSBC Life (UK) Limited cannot be held responsible for the investment performance of your bond.**

**The value of any tax benefits described depends on your individual circumstances. Tax rules and rates may change in the future. HSBC Life (UK) Limited cannot be held responsible for any future changes in legislation.**

# Benefits at a glance

- ▶ **Direct investment choice** – the underlying funds held within your bond are the real assets, not replicated in-house versions of those funds. For more details please see page 5.
- ▶ **Simplicity** – to streamline administration, your adviser has access to a specially constructed website for use in connection with the Bond. Instructions can be placed online for us to buy and sell funds on your behalf; alternatively, you can select automated options for management of your portfolio according to pre-set allocations.
- ▶ **Flexibility** – your bond will be divided into a maximum of 1,200 separate and identical policies. As each policy can be treated independently, you have flexibility to undertake tax planning strategies according to your individual needs and tax circumstances.
- ▶ **Transparency** – all transactions are undertaken through a cash account which is apportioned equally across all the policies in your bond. Payments are separately itemised and documented on your half-yearly statements, so that you have a clear picture of the charges and deductions which apply.
- ▶ **Competitive pricing** – by linking to the actual funds offered by fund managers (rather than replicating those funds ourselves) we are able to offer a competitively priced proposition with minimal administration costs, and reduced charges for larger size investment amounts. For more details please see page 7.
- ▶ **Tax efficient withdrawals** – you can supplement your income by taking regular withdrawals from your capital in a tax-efficient way (see page 9 for more details).
- ▶ **Individual tax calculations** – rather than making a flat rate deduction for tax on investment growth, we calculate tax liability individually for each bond according to the underlying investments held. As the tax rate we apply varies by fund there is potential for you to adjust the tax liability through fund choice. The process is totally transparent as the tax deduction is shown as a separate item on your half-yearly statements. For more details, please see page 8.
- ▶ **Multi-life facility** – unless your bond is cashed in it will continue until the death of the last surviving life insured. As you can insure up to ten lives (from a minimum age of 3 months and no maximum age limit), this investment can be used to span several generations.
- ▶ **Multi-owner options** – you can take out this Bond on your own or jointly with up to 9 other policy owners. Combined with the multi-life facility, this makes the Bond a highly effective vehicle for a range of trust and tax planning scenarios.
- ▶ **Additional investments** – the minimum initial investment is £5,000. Thereafter you can add additional amounts from £500. Topping up your investment at anytime means you have the flexibility to manage all your investments in one bond.
- ▶ **Inheritance planning** – a wide range of trust options is available to assist with inheritance tax planning and mitigation. Please refer to your adviser for guidance.
- ▶ **Residual income payments** – we credit residual income payments to investors after their bonds are surrendered. An additional payment is made 11 weeks after full surrenders where any further income has been received following sale of fund holdings.

# Direct investment

With some investment bond products you are restricted to insurance funds which are managed in-house and whose fund prices may be adjusted to account for charges and tax liability. Even where in-house versions of external funds are available, these can be difficult for investors to understand. There may be inconsistencies in fund price and asset mix compared to the underlying funds being replicated. Investors may also be unclear as to the level of charges and tax being deducted from the fund price.

By contrast, with the HSBC Onshore Investment Bond you are invested directly into a range of collective investments (such as open-ended investment companies and unit trusts) available from fund management groups. Any fund tax liability and charges (other than the fund charges applicable to each fund) are accounted for separately, rather than within the fund prices. This approach has a number of advantages:

- you are invested directly in the underlying collective investment,
- you have complete transparency as to the performance of these collective funds and also the charges and tax being taken, and
- you can maintain a consistent investment strategy across a range of investments and tax wrappers, including HSBC's Onshore Investment Bond, which you hold.

You can choose from a range of funds and other than the minimum investment levels applying to each asset you hold in your bond, there are no other restrictions on how you spread your investment.

Subject to the minimum investment levels you also have complete flexibility to move monies between funds and, because your overall investment is held within an investment bond, you can trade between funds without triggering any personal liability to capital gains tax (see page 8 for more details).

For details of the current fund range please speak to your adviser.

# Simplicity

Managing an investment portfolio can be involved and time consuming. HSBC's Onshore Investment Bond – Select offers a number of features that aim to make it easier for both you and your adviser to manage your portfolio.

## HSBC extranet

Your adviser has access to a specially constructed extranet for use in connection with the Bond. This extranet provides a streamlined online administration process for servicing and administration requests and trading funds on your bond.

## Automated options

If you wish to follow a more passive investment strategy, you can instruct us to undertake management actions on your portfolio. The following automated options are available when you commence your bond.

- ▶ **Phased investment** – allows your initial investment to be drip fed into your selected funds over a 3, 6 or 12 month period.
- ▶ **Portfolio rebalancing** – rebalances your portfolio to your chosen investment allocation, by fund sales and purchases, on a half-yearly, yearly or two-yearly basis.

## Valuations

However you choose to manage your portfolio you will receive a full statement, half-yearly, showing the value of each investment in your portfolio together with a summary of all transactions over the period.

# Transparency

Central to the operation of your bond is a cash account, divided equally across the policies in your bond, which ensures transparency of charges, credits and deductions.

At the outset, your investment amount will be allocated to the cash account in your bond pending purchase of fund holdings. This cash account forms part of your investment portfolio and is used to debit the cost of fund purchases and credit the proceeds from fund sales. Interest, where applicable, is calculated daily based on the balance in your account, and credited monthly.

The cash account is used to manage all transactions on your bond including income receipts, charge deductions, and taxes deducted at source. Each transaction is shown as a separate item so you have a clear picture of the different costs and deductions which apply to your investment portfolio. Half-yearly statements include a cash history which provides a complete breakdown of all transactions through your cash account.

Another advantage of the cash account is that it can be utilised in conjunction with the investment strategy for your bond (for example, for monies awaiting investment or as a cash shelter in times of market volatility). You must retain a cash balance of at least 3% of the value of each policy in your bond, but otherwise there are no restrictions on the level of cash you can hold in this account.

Transparency also applies to the tax deductions on your bond. With many insurance based investments this cost is hidden as the tax liability is allowed for by adjustment to the unit prices of the underlying funds. However with the HSBC Onshore Investment Bond – Select we undertake an individual tax calculation to reflect the tax liability based on the funds you hold in your bond. This amount is disclosed as a monthly deduction from your cash account, giving you and your adviser the opportunity to adjust the tax liability through the choice of funds held in your bond. More details are given on page 8.

Each fund which you select has its own management charges and these are generally deducted within that fund rather than as a separate transaction. For details please speak to your adviser.

# Competitive pricing

Our philosophy is to provide a comprehensive service which is clear and cost-effective. Charges are broken down according to the services you receive and there are no hidden costs.

At HSBC Life (UK) Limited we do not replicate funds offered by external fund managers. We link to the funds directly. As a result of this we are able to offer a competitively priced proposition.

## Our charges

The only charges we apply, currently, are as follows:

### Annual management charge

To cover our administration costs, there is an annual management charge which is calculated daily based on cash, shares and units held, and deducted from your cash account on a monthly basis. The level of this charge depends upon your initial investment amount as follows:

Initial investment	Annual management charge
Up to £149,999	0.35% yearly of bond value
£150,000 - £249,999	0.30%
£250,000 and above	0.25%

For top-up investments the level of the charge will take into account the previous amounts you have invested. For example, if you originally invested £100,000 and are now adding a further £75,000 to your bond, an annual management charge of 0.30% would apply to the top-up investment. The level of charge being applied to your original investment would not change.

## Other charges

Phased investment (optional) (initial investment only)	£25
Portfolio rebalancing (optional) (initial investment only)	£25 at each portfolio rebalancing date

In addition there is a monthly tax deduction to account for tax due on the underlying investments held in your bond.

## Fund charges

Each fund has its own charges which will be deducted within that fund. Typically you could expect to pay annual management charges (expressed as an ongoing figure) but in some cases initial and/or exit charges may also apply. These charges are shown on fund factsheets available from your adviser.

## Adviser charging

If applicable, this depends on the terms you have agreed with your adviser and is determined independently of the product we provide. However, where you have consented to adviser charges being taken from your bond, we will deduct them and pass them to your adviser. These payments will be taken from your cash account, and shown as separate items on your statements.

**Please note that there may be tax implications for deduction of adviser charges from your bond (please see page 9 for more details).**

# Tax treatment

The tax treatment for individuals holding collective investments within an investment bond is different to holding them directly. Depending on your individual circumstances, this may create tax planning opportunities.

This section is designed to give you a summary of the tax treatment of your bond. Please note that the following information is based on our understanding and interpretation of UK tax legislation as at January 2017. UK tax law and practice are subject to change. Please refer to your adviser for tax guidance.

**Please be aware that the value of tax benefits will depend on your individual circumstances and tax rules and rates may change in the future.**

## Tax within your bond

The HSBC Onshore Investment Bond – Select is a life insurance contract issued by HSBC Life (UK) Limited. The company is subject to corporation tax on any income and capital gains arising from the underlying investments in your bond. We provide for this by calculating the liability daily, based on the underlying investments in your funds, and collecting a monthly deduction from the cash account.

This is different to providers offering in-house versions of funds, known as ‘mirror funds’, where it can be unclear how much tax is being taken because tax liability is allowed for by adjustment to the unit prices of each mirror fund. By contrast, with the HSBC Onshore Investment Bond – Select, we calculate an amount to reflect your share of the total tax due. This amount is clearly shown on your half-yearly statements.

We apply different rates of tax deduction to different funds for both income and gains. The maximum applicable tax rate is 20% of the annual growth on your underlying investments but you typically pay less than this. For further information please refer to your adviser.

Please note that this tax deduction is non-reclaimable, so this Bond is unlikely to be a suitable investment if you are a non-taxpayer.

As your funds are held within a life insurance bond you have freedom to buy and sell funds without triggering a personal Capital Gains Tax (CGT) liability. This allows you to rebalance or adjust your portfolio without capital gains tax implications

which can be a potential constraint to investment decisions where collective investments are held direct.

## Tax on your bond’s proceeds

The tax that is paid on the underlying investments in your bond offsets the basic rate tax liability that would otherwise be due when taking proceeds from your bond. You will be treated as having already paid tax at a notional rate of 20% even where the actual amount we have deducted from your cash account is less.

When a chargeable event occurs you will have no further tax liability on your gain (profit) unless you are a higher rate or additional rate taxpayer at that time, or the gain takes you into a higher rate of tax, or the gain reduces the personal allowance that you would otherwise be entitled to.

Chargeable events include:

- ▶ Cashing in one or more of the policies within your bond,
- ▶ Withdrawing more than your 5% cumulative allowance in any year,
- ▶ Cashing in all of your bond,
- ▶ Changing the ownership of (assigning) all or part of your bond for money, or money’s worth,
- ▶ Payment of the death benefit.

Any taxable gain will be subject to the difference between basic rate and higher rates of income tax, ie, 20% if you are a 40% taxpayer and 25% if you are a 45% taxpayer. You should also be aware that where a gain pushes your total income above £100,000 (2017/18 tax year) this will result in the loss of personal allowances.

## Tax planning

By planning ahead, you may be able to take advantage of opportunities to minimise tax liability when you take proceeds from your bond.

## 5% yearly withdrawal allowance

Another feature of this investment bond is that you are able to take withdrawals of up to 5% of your original investment each year (for up to 20 years) without incurring an immediate liability to tax.

If you do not use up your allowance in any given year, you can carry it forward for future use. Therefore by taking withdrawals of up to 5% across each policy in your bond, tax can be deferred until one or more of your policies are surrendered or until your 5% allowances have been used up.

You should note that the amount of any adviser charges deducted from your bond will count towards your yearly 5% allowance. However, this does not apply to adviser charges where you have agreed to pay the charge direct to your adviser rather than through your bond.

### **Top slicing**

If the gain from your bond pushes you into a higher rate tax band you may claim a special type of relief known as 'top slicing'. This may reduce or remove your liability to higher rate tax on the gain. Please refer to your adviser for further details.

### **Multiple policies**

We divide each bond into a number of individual policies which allows you greater flexibility from a tax planning perspective. You can take proceeds across all policies or by surrendering a number of individual policies, or a combination of both.

The best method of taking proceeds from your bond will ultimately depend on tax rates, legislation and your personal circumstances.

### **Personal Savings Allowance**

Since April 2016 it may be possible to offset chargeable event gains (up to £500 for the 2017/18 tax year) against the new Personal Savings Allowance if you are a higher rate taxpayer at the time the taxable event occurs. However, this is not available for additional rate taxpayers and depends on the amount of any other savings income to be offset. Please refer to your adviser for further details.

### **Personal allowances for higher earners**

For higher earners the personal allowance reduces by £1 for every £2 of income above £100,000 (2017/18 tax year). This reduction applies irrespective of age.

If the total income (including the total gain on your bond) is below the £100,000 limit, your personal allowance is not affected. If your total income is more than £100,000 your personal allowance will be reduced or lost.

### **Inheritance tax**

If the value of your estate when you die is likely to be more than the nil rate band (£325,000 for individuals for the 2017/18 tax year), the amount in excess of this band will be subject to inheritance tax. This tax is also payable on transfers out of your estate. These might be due to your death or to certain 'gifts' which you make.

Whilst there are some significant reliefs and exemptions available (including a new residence nil rate band, due to be phased in between 2017 and 2020), without careful planning your beneficiaries may still receive less than they otherwise might if the estate you leave them is reduced by a liability to inheritance tax.

By insuring multiple lives under your bond, your bond can continue until the death of the last surviving life insured. With the option to insure up to 10 lives (from age three months upwards) you have flexibility to shelter assets from inheritance tax liability over several generations.

Also, a wide range of trust options is available, whether you are seeking to avoid the need for your beneficiaries to await probate in the event of your death, or to make gifts during your lifetime to reduce the value of your estate for inheritance tax purposes.

A discounted Gift Trust can be used to achieve an immediate reduction in your estate for inheritance tax purposes, whilst retaining access to a regular stream of capital payments to provide you with an income during your lifetime.

If you are unable to give away any assets a Loan Trust, whilst it will not provide any immediate saving in inheritance tax, can be used to ensure that any growth on the investment made by the trustees will be outside your estate for inheritance tax purposes.

Alternatively, if you are able to give away a substantial sum, a Gift Trust will have the effect of immediately reducing your potential inheritance tax liability.

Please refer to your adviser for further details.

# About us

The HSBC Onshore Investment Bond – Select is provided by HSBC Life (UK) Limited.

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## HSBC Life (UK) Limited

HSBC Life (UK) Limited is incorporated in England and is a company limited by shares. HSBC Life (UK) Limited is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (firm reference number 133435) and is a member of the Association of British Insurers.

Registered Office: 8 Canada Square, London E14 5HQ.  
Registered in England (United Kingdom) number 88695.

The main business of HSBC Life (UK) Limited is writing life policies.

Please contact your adviser or us for alternative formats of this document.

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