Audio Recording: HSBC Securities’ Views on Planning for Retirement
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SPEAKERS

Jose Rasco
HSBC Private Banking, Americas – Chief Investment Strategist

Simon Neilson
HSBC Private Banking, Americas – Senior Portfolio Manager

PRESENTATION

Jose Rasco

Hello everybody. I want to thank you for joining us today on the HSBC Securities’ Views on Planning for Retirement. My name is Jose Rasco, I’m the Chief Investment Strategist at HSBC Private Banking, Americas, and joining me today is Simon Neilson, a Senior Portfolio Manager focused on fixed income in HSBC Private Banking, Americas, as well, so we’re going to speak to you about retirement ideas. But before we do, I want to thank you for joining us today.

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Now that I’ve gotten the regulatory burden off our back, let me go into a brief discussion of what we’re looking at and, again, as the disclosure stated, I think if you really want to get the maximum juice you can out of this, you need to contact the investment professionals you’re talking to, hopefully they’re at HSBC, as well as tax advisors and planning professionals might be able to assist you.

But I think if we talk about retirement, the first thing to focus on is looking forward from here. Where are we as an economy? Where are we as a country? Currently, we’re in the midst of one of the deepest recessions we’ve ever seen, hopefully it will also be one of the shortest recessions. We just got payroll data that suggests that payrolls are, in fact, accelerating once again, so that continues to be our view that we will see a short but very deep recession, and plus the growth out of that recession will be slow and it will be begrudging. We are seeing that the reopening is happening, but it is not going to happen all at once, so keep in mind, this will be a slow and steady progression. That’s number one, is do you want to retire based on where the macro economy is, when do you want to retire based on your lifecycle, where you are in your life. Not only that, but how long do you need your money to work for you? When you retire, you want to make sure that you have enough money put aside to work for you for much longer than you think. The old building maxim is whenever you’re going to do an improvement to your house, it’s going to twice as long and cost four times as much, I think retirement planning should go by similar guidelines, in the sense that everybody assumes you’re going to retire at a certain age, whether it’s 55 or 65, and you’re going to live X number of years. You don’t [audio] that finite date is and the result of demographic analysis over the last couple of years shows that, in fact, people are living longer than they had ever expected. Not only that, you’re living healthier and fuller lives, both mentally and physically than people had thought.

If you look at some of the stuff you see on demographics, you see that people who are in their 50s today could easily expect to live into their 80s and into their 90s with a healthy lifestyle. Don’t assume that when you retire at 65, you only need money for X number of years, you should really look at some of the demographics behind it.

Now, on the investment side, what are the objectives? Clearly, one objective is capital preservation, where you want to make sure that you are investing in a manner, which is somewhat conservative to maintain the capital accumulated throughout your working life. Number two is growth. You do need to see some growth in the portfolio and, more importantly, you want to beat the rate of inflation. Yes, you do want to preserve the capital, but you do have to beat the rate of inflation or you’re losing purchasing power. Keep in mind, as you retire, your prime earning years tend to be from 45-54 where the average per capita income is about $105,000 a year in the US, and when you are 65 and over, that per capita income gets cut in half to 50,000 a year. Your income generating capabilities do decline even if you don’t retire. Spending declines as well. In your 45-54 age group, you usually spend about $75,000 a year. When you are 65 or more, you reduce your spending to [$50,000] per year. Important points to keep in mind. Now, depending on how things tend to go down, and not surprisingly, spending on healthcare tends to make up the bulk of that difference and, therefore, you’re spending more on healthcare and less on [audio]. Those are some of the things to keep in mind.

Now, income needs, you need to focus on what your retirement looks like and if you have enough set aside, what contribution you will get [audio] and what contribution you will get from social security. Obviously, as you invest the capital, you will need to drawdown from that capital, and that was where the dissaving comes into play, so you need to have enough put aside that you grow it, beat the rate if inflation and still allow yourself to drawdown some of that capital.

Now, in terms of the backdrop we see going forward for the next 10 years, interest rates and the Fed a very important point. So, where do we see interest rates going over the next couple of years? Over the next two years, clearly given COVID and given the recession that we’re in, we don’t see interest rates going higher. Policy rates should stay pretty much where they are. The Fed
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has stated that goal, through 2022 they will keep short rates unchanged, and they continue to buy Treasuries at the long end of the curve so, therefore, the [audio] interest rates should stay low and flat, so it is easy to borrow long-term and rates should stay low. That assuages that fear where we see could interest rates really shoot up on us, and the cost of borrowing go up dramatically if you want to buy a car or a house in your retirement years.

Now, after the next two to three years, assuming the economy is past the December 2019 peak and we are back in a really good growth mode in the next year and a half, two years, the Fed may start raising rates but, again, we think they will do so very slowly and very cautiously.

Now, the other big question is inflation. I mentioned it before. You want to see your portfolio beat the rate of inflation, because if you don’t, you’re seeing that you’re losing purchasing power. The good news is there is we think that we’re at the beginning of a technology revolution that is going to be dramatic over the next decade, and we think it’s going to help dampen the inflation rate as we go into the next decade, so I think that’s good news for retirees. Keep in mind, however, as the Fed is going to keep rates very low, you will not get paid much for savings, because interest rates are going to stay low.

What’s going to eat up your wallet? As I mentioned before, it’s going to be a lot of healthcare spending, therefore, I think it’s important, from our perspective, to also focus on insurance. Life insurance. Do you buy [audio] or whole life. Long-term disability insurance. A lot of people don’t have it in this country, definitely need it. Long-term care. Many people have bought long-term care facilities at an earlier age where the cost is much lower, and if you can continue that, that’s [audio] for you in your retirement years. Last but not least, to help ease the pain for your children and the next generation, there are end of life opportunities where you need to consider insurance so that the burden of taking care of those issues doesn’t fall on our children. Last but not least, I think, is philanthropy and succession planning. Clearly, you need to have this conversation with your accountant, with some sort of planning specialist who can sit here and help you transition that wealth to the next generation, and then can also help you in your retirement years if you want to get involved with philanthropy. Both things, we can certainly assist you with, but you need to talk to your tax and planning professionals to really hammer those out.

Last but not least, I think, as we look going forward, clearly one of the things that has happened is the Government has had to spend a great deal of money on COVID-19 and keeping people’s income levels at a decent level and there’s been a lot of Federal spending and local governments are feeling the pinch, so clearly one of the issues we see going forward is potentially higher taxes. So, taxes could go up at the State and local level and, perhaps, even at the Federal level, maybe not in 2020 or 2021, but certainly as we go forward, we expect to see higher taxes. That is why I have brought along my colleague, Simon Neilson, who is going to speak to you about one particular thing you can look at if you’re facing a higher tax environment.

So, Simon, if you could introduce yourself and help people understand some options there, that would be very helpful.

**Simon Neilson**

Thank you, Jose, and thank you everybody for joining us. As Jose mentioned, my name is Simon Neilson, I’m a Senior Portfolio Manager primarily focused on the fixed income markets for HSBC Private Banking, America. I really want to talk to you about the taxes and mitigation of taxes and what you can do leading up to retirement to invest in to make sure that your money works the best it can for you.

One particular area that we have found has been a real asset over the last few years, and even more so to this day, is the area of municipal bonds. Why municipal bonds are we mentioning municipals here? Municipal bonds continue to offer that safety bit of asset for us that they have time and time again. In addition, offering that tax-free interest and that semi-annual coupon paying PUBLIC
you twice a year, which is a guaranteed income stream for the life of that bond. In addition, it also provides a nice level of liquidity for you should you need it through the course of your savings or leading up to retirement or even into retirement. Also, these bonds tend to mature with some exceptions maturing at par, so when you’re buying a solid quality piece of bond, you know that you’re going to get that money back, barring any defaults and so forth. Those are just a few of the more important parts of the municipal bonds and how they are made up.

However, that steady stream of income I can’t stress enough. That steady stream of income can really be used for a variety of things while you’re getting ready for retirement and also just your present day expenses and so forth, so paying tuitions or houses or cars and so forth. But more importantly for the sake of this conversation, for the sake of retirement, it can really be used as a nice area of generating a good solid piece of tax-free income for you so that you can save and get ready for retirement and go off into the sunset and carry on as you would like. That’s probably some of the most important parts of the municipal bond market.

The other part I would mention is, why municipal bonds now more so than any time? Municipal bonds have been around for a very, very long time and why, more importantly, municipal bonds right now? Well, currently, with the way conditions have worked in the municipal bond market and the way fixed income has panned out over the last few months, particularly as COVID has interfered, municipal bonds have actually presented themselves much, much cheaper than most asset classes. In fact, if you compare municipal rates to Treasury ratios, you will find that the 10-year Treasury ratio in comparison with the munis is 127%, and the five-year municipal to Treasuries is about 150%, meaning there is more yield to be had in the same maturity in the municipal market than in the Treasury market, so really indicating that municipals is a really good thought for your portfolio currently.

One thing that Jose mentioned that’s very, very important and we should always consider and you should always have in the back of your head is how am I doing with my taxes? Am I maximizing my portfolio and my dollar for taxes? And are higher taxes coming? Well, we know that States and cities have done a very, very good job over the last few months shoring up budget gaps, trying to plug the holes that resulted from the COVID crisis. Unfortunately, they have had to furlough workers, but hopefully we will see those come back. Rainy day funds did enter 2020 at very high levels. 2019 was a record year for muni in terms of excess money being generated for the States and cities, so rainy day funds are up quite high and so that’s a very good sign coming into 2020, States and cities were in excellent shape, so they can definitely count on that.

Finally, there’s a lot of Fed help that’s going to be presented that’s already been offered, but also going to have to come into the future, so that Fed help should really help stabilize markets even more so. But the reason why I’m mentioning this is because with the Fed offering help, we are going to have to find a way to pay for this, and just like Jose said, higher taxes could be inevitable here and that’s a concern and something that you should keep in your head.

Now, what can you do? OK, so taxes might go higher, what should we do? So, we’re looking at the municipal market. There are several areas within the municipal market that you can look. You can look for just simple cash management portfolios. You can look to 1-3, 1-5, or 1-10 type portfolios. I think, more importantly, the reason why I’m making it so broad is each one can be customized and shared to meet your needs, and that’s what it should be, so whether you do a portfolio here at HSBC or you do it with another dealer, it’s important that with municipals, you really get something that’s more customized to fit your needs. For instance, there are several areas of the municipal bond market such as tax-free municipals or taxable municipals where you get a State exemption but pay a Federal, and some of these areas really can make a lot of sense for a lot of people in terms of maximizing their money, maximizing their portfolio and getting things to work for them. I think this really leads me to believe that you need a lot of diversification as well, so when you get that customization, insist on diversification using essential names, names that you’re
comfortable with, positive-rated names, a very good source of essential services and so forth. For instance, people that retire in States like Florida, Texas, and Washington don’t necessarily need to buy the State that they are in, in terms of municipal bonds, so they can buy national, which means they can diversify their portfolio a lot more throughout the country and potentially pick up a little bit more yield, so that’s really great.

I think one thing to remember, though, is what are we doing with your municipal portfolio? This is not sought after for retirement with the sense that risk should be involved. In fact, it should be a safety play. Correct? And so that safety play means buy a bigger coupon, get that 4-5% coupon if you can, clip that big chunk of interest and really get that bond to work for you in those names that you know and like.

Finally, I would like to mention, as did Jose, that location really matters, where you retire and how you retire. Some States cannot always be friendly to taxes, as we know, but also social security and so forth. In fact, currently right now, 12 States are exempt from social security while others have certain income thresholds that you will have to pay when you start collecting social security and so forth, so something to consider.

I encourage you to speak with an investment professional going from here so that we can discuss further in terms of what’s best for your portfolio and for your money, but I encourage you, and I will leave you with this thought is to just jot down what you think you would like to have in retirement, what you would like to prepare for, make some notes wherever you are, wherever you’re sitting with your family, and decide what’s going to be best for your retirement and how you would like to live. With that knowledge, with those points in mind we can then shape a nice portfolio for you and maximize your money and your portfolio in the long run.

With that, I will hand it back to Jose and thank you very much for tuning in on this call.

Jose Rasco

Thank you, Simon. Thank you everyone for joining us and for the umpteenth time, we suggest speak to your investment, tax, and planning professionals and they can help guide you and if you have any questions or comments, please reach out to us and thank you very much for your time everyone.