

Podcast Transcript: It's never too late to start planning for retirement

Emily Today we're talking about how it's never too late to start your retirement planning. Whether you're coming to it late or you're just trying to make up for lost time, it's always worth contributing to a pension.

Rob That's right. Joining us today is Liliana Gonzalez, Training Consultant for Civil Service Pensions, to tell us a little bit more about planning for retirement later on in your career. Liliana, thanks so much for joining us today.

Liliana Thank you for having me.

Rob Can we start off with you telling us a little bit about your role in the Training team?

Liliana Yes, I am part of the team of dedicated consultants that provides training and engagement support for the Civil Service Pension. So we're the faces and the voices that you hear on webinars and face to face sessions.

Rob Great. Well, it's good to have you here.

Emily So let's start off with the most important question. Why is it important to be thinking about and planning for your retirement?

Liliana Yes. So, of course, planning for retirement. There's a whole host of reasons that you want to get involved as early as possible, because obviously retirement is the time that everybody wants to get to. So you want to make sure that you have the funds in retirement to lead the life that you're hoping to, and you'll have less stress. So starting planning as early as possible, you know, that's going to take that stress off of you. You never know what's around the corner. So obviously, knowing what your financial situation is in the future is going to be of benefit, of course. And a lot of people don't know what their retirement income will be, so the earlier you can plan, the more, you know, that you'll get out of it.

Rob Okay. So we often talk to members about how it's never too early to start retirement planning, and we put a lot of emphasis on people planning early on in their career. What if you're coming into this late? So what if it's, you know, ten or 15 years away from retirement? You know, what can people do in that situation?

Liliana Yeah, the beauty of the scheme is that it's never too late to start. The accrual rate is really good in the Civil Service Pension. It's one of the best, you know, that I've ever seen in all of my years of pensions. And yeah, just getting involved as soon as you can. Obviously the earlier the better, you know, that's going to be of benefit to you.

Rob And just help me out. Accrual rate, what do we mean by accrual rate?

Liliana Yes, the accrual rates. So you're going to get a set percentage of your pay every year. You're getting 2.32% of your earnings banked toward your pension every single year. So you might think it's a bit too late, but even if you've got five years, ten years, 15 years to go, you're going to see your pension build up quite significantly over time.

Emily That's actually 2.32% of your pensionable earnings, banked towards your pension every year, just to make sure that's clear.

Rob Brilliant.

Emily And I think it's important, like you say, to kind of emphasize that it's there's no such thing as being too early or too late when you consider it's always going to be worthwhile.

Liliana Absolutely.

Emily So what might cause somebody to come to their retirement planning at a later stage?

Liliana So there's a few reasons. Obviously, everybody's circumstances are different, but auto-enrollment only came in in recent history. So only now people are really getting engaged and involved, you know, automatically. But there are other life events that may impact people not coming into the pension until later in the game. There's people that, you know, just opted out for whatever reason. Some people get divorced and do lose part of the, you know, pension in the settlement. So, yeah, everybody's circumstances are different. There's no judgment here. But obviously you just want to get involved as soon as you can.

Rob And auto-enrollment is where presumably employers automatically put you into a pension scheme, yeah?

Liliana Yeah, that's correct. So people get auto-enrolled every three years. So obviously, if people do opt out, obviously that's a personal choice. That's fine. But you will be automatically re-enrolled every three years. So it's something that, you know, you need to engage with and remain engaged with.

Rob Okay. So, let's say someone's listening to this and, you know, they're thinking, "okay, well, it's not too late. I can start planning now". How would they get started with that?

Liliana Well, the first thing they want to do is get onto the Pension Portal. So if you've not done that yet, it's a really good, useful tool to have because it's your one stop shop for all things Civil Service Pension. You're going to be able to view your benefit statements every year and see in real-time how your pension's growing. You're going to be able to view and change your death benefit nominations, which is really important because we do act in accordance with your wishes. So obviously if anything changes, you want to let us know. And the retirement modeller is on the Pension Portal, so you're able to project your benefits to the future. And yeah, it's just a really good, useful tool to have. Also, if anybody is impacted by the Remedy, that illustrator's also on the home page as well.

Emily Sounds like a one stop shop, the Pension Portal.

Liliana Yeah, it is. It was really good. At Civil Service Live, we demonstrated it for quite a few members. It was really good, people really engaged with it.

Rob And I suppose the modeller, for people who are perhaps a bit late to the, you know, in the game, sort of getting, you know, getting involved with their pension, they can use the modeller to see what their pension's likely to look like when they retire and then perhaps take action. So if you're in a situation where you don't think you're going to have enough to live off in retirement, can you boost your pension?

Liliana Yeah, of course. So again, that's a really good point that your modeller does project your benefits to the future. And if you do feel like you've got any, you know, gaps that you want to plug, there are a couple of options that you can do. Firstly, you've got Added Pension, so that is a way to, quite literally, buy added pension. So you're going to boost your alpha pension every single year. You can do it by monthly contributions from your pay or through a lump sum payment. So the choice is yours, so you'll know what you're getting out of that money because you're going to have a set pension. The other thing you can do with your alpha is pay to take it early. So EPA is a way to pay extra contributions on top of your normal contributions to take what you've accrued that year early, so by one, two or three years. There are some rules around it, like you can't have an age

that's younger than 65. So if your state pension age is 67, for example, you can purchase a minus one or two, basically paying to take your pension one or two years early, for example.

Rob Without it reducing, presumably? Without paying extra?

Liliana Right, yeah, exactly. So you've paid that extra so you can take your pension early. And even if you take your pension earlier than that age, for example, that pension's not going to be reduced as much if that makes sense, because alpha is based on your state pension age. So yeah, if you're paying to take it early, obviously that lessens the reduction if you're going to take it even earlier than 65.

Emily Just to be clear, EPA is Effective Pension Age and EEPA is Enhanced Effective Pension Age.

Rob And I suppose, presumably people should also think about their state pension as well, because obviously that, whilst it's quite small in comparison, it's still something isn't it?

Liliana Yeah, of course state pension is something that's going to be there. But you know, planning for your retirement and making sure that you're having that income, you're not having to solely rely on the state pension. Another option you have is Additional Voluntary Contributions. So this is something that you can do to have a pot outside of the Civil Service. So this is paying additional voluntary contributions to Legal & General. The way that that pension scheme works is different to what alpha is or what the Civil Service Pensions is. It's a defined contribution arrangement - so you've got two types of pensions in the market. You've got defined benefit and defined contribution, so Legal & General are the provider for that. Um, you would decide how much you want to put in, you can put in as little as £10 a month or £100 as a lump sum and that money gets invested and that is up to you as to how it's invested. So you can choose from the set funds that Legal & General have laid out, or you can have them choose for you. There's something called the default investment strategy, and that basically means they put you in higher-risk when you're younger and move on to medium and lower as you approach retirement. But again, Legal & General do provide that pension scheme and would be able to give you all of that information. But you can find the information on the Civil Service [Pensions] website as well.

Rob We also talk about the difference between a DC and a DB pension in the first series, don't we? In the first episode...

Emily Yeah, first ever episode.

Rob ...Pensions 101, so anyone wanting to understand the difference, look back on that episode.

Emily Yeah, that's a good shout.

Rob Okay, so it sounds like there's quite a bit that, you know, people can do. So, you know, how can we sort of take that a bit further maybe? Is there anything that we can provide that brings it all together that helps people see it all in one place?

Liliana Yeah, absolutely. If you've not been on a Pension Power yet, I highly recommend it. Not just because I host it along with my wonderful colleagues, but because it gets you engaged and it tells you all about your Civil Service Pension, all of your retirement options, your top up options, literally everything you need to know in an hour, which is pretty great. It's free and you can book on yourself at a time and date that suits you.

Emily So, Liliana, you mentioned before we talked briefly about the state pension. That will obviously be supplementary to any workplace pensions that you've got and it shouldn't be something that people rely on solely, but how can you find out how that's tracking?

Liliana Yeah, so you can check your state pension forecast by going to the GOV.UK website. All you need to do is make a Government Gateway account and based on all of your records so far, they can tell you what you can anticipate to have once you reach your state pension age. So again, that's GOV.UK website, Government Gateway.

Rob Great. And we'll put a link directly to where you can check that as well in the in the description.

Liliana Something that's really important as well for anybody that's relatively new to the scheme is you have 12 months from joining to transfer in any previous benefits you have outside of the Civil Service into your Civil Service Pension. So even if you're thinking about it, it's really good idea to get engaged and at least have that option and make that informed decision rather than letting that 12 months pass you by.

Emily So you mentioned kind of thinking about the kind of lifestyle that you might want in retirement, or that you're going to have in retirement. You'll be less stressed, you'll maybe have a little bit more disposable income. How does that kind of fold into planning for the future?

Liliana Yeah. So when you're planning, you want to think about what kind of lifestyle you're looking to lead. Obviously, everybody's situation is different. Some people have mortgages, some people don't. Some people want to go on holiday. You know, how many times a week do you want to go out to eat? And thinking about exactly what you want in life and exactly how you're going to get there, the earlier you get engaged, the better.

Rob You know, it might be really hard to imagine what you want to do in like 15 years. But it doesn't matter. What you need to think about is how do you want to feel in 15 years? And you probably want to feel comfortable. You know, you probably want to feel like you've, you know, you've worked really hard for your whole life and now you can relax and enjoy the fruits of that work. We talk about planning for retirement, we talk about having enough money and all of that sort of stuff. But you know, what is retirement, you know, like? How does it feel for someone? Quite a lot of our identity is wrapped up in work and who we are is what we do, and then suddenly, you're retired. You know, what? What? I don't know. I don't know where I'm going with this question, to be honest with you.

Liliana No that's good, that's good for thought. But many people say that life begins when the day job ends, right? So why wouldn't you just start putting money away for that new chapter? You know, the earlier the better, obviously. But, you know, if you come in late to the game, you're still going to be able to put aside money for the future and what you want your future to look like. Obviously, that's going to be different for everyone. Some people want to spend more time with family, some people want to travel, volunteer, explore new hobbies, you know, because obviously we work and the time that we have left is not as much when we're retired. So obviously you just want to spend that time how you want it to with your family. Some people want to renovate their home, you know, or just finding the home of your dreams, You know, that planning and that financial freedom is going to give you what you need to do what you want to do, and anything is possible as long as you plan for it.

Emily Absolutely. Absolutely.

Rob I think when we speak to members, it sort of feels like there's two different types of like being intimidated about retirement. There's kind of "I'm really young. It's intimidating because it's like 40 years away," and "I'm not so young and it's intimidating because it's so close, so I don't feel like I'm going to have enough money".

Emily Yeah, that's a really good point. And I think a lot of the things that we talk about and we suggest to members when they come to us asking for more information is to say, just think about the income that you're going to need. Think about your lifestyle. How do I know what income I'm going to need in 30, 40 years' time? That feels like a really difficult thing to work out. But you don't

need this big, detailed, like, spreadsheet of a plan. You just need to like, think about it, just take 5 minutes and think about it. So I have a mortgage now, in 30 years, hopefully I won't have that mortgage anymore. And if I have kids, then, you know, maybe by that point, they won't be financially dependent on me or not as financially dependent on me. I'm saying that just thinking about my parents...

Rob And when your children listen back to this podcast in 20, 30 years' time...

Emily Yeah, exactly. So I think it's just, kind of, we need to like find a way to take that intimidating, like, vibe out of it. It doesn't need to be this big, scary thing. You don't need a big, detailed plan, just like, think about it for 5 minutes and you'll get a lot of the, kind of, planning in your head done. You'd be surprised at how much you can get done.

Liliana Yeah, absolutely. You've just got to think about what your incomings are and what your outgoings are. And I think, we all have the same basic needs but all those little extras like, you know, going out to eat, going to the movies, going on holiday, and I think everybody wants to go on holiday.

Rob I'm going to talk about something now that I don't really know anything about and hope that you do, Lilliana. So what about inflation? At the moment, like obviously as we're recording this, a lot of people are living through some pretty hard times because of the cost-of-living and you know, how do we know that in, you know, 20, 30 years' time when people are thinking about retiring, that a pint of milk's not going to cost, you know, 30 quid? You know? And so how would you... what would you say to somebody who came at you with that when you're talking about it's never too late to start planning, think about what income you're going to need. And they can say, "Well, how am I supposed to know I might need £500,000 a year to be able to afford my, you know, electricity bill?" What about that inflation sort of aspect?

Liliana Well, Civil Service Pensions is quite unique in that it's one of the only pensions, kind of, in the market that has that, kind of, cost-of-living adjustment applied to it every year to make sure that the pension retains its value. So it's something that Treasury decides on every year, and again, that's to make sure that the pension keeps its value. As we know, [the] cost-of-living is at quite a high right now. That's why there was a 10.1% increase on the 1st April for all the alpha pensions and pensions in payment as well. So again, it's kind of like a guarantee that you're going to have that income at retirement and it retains its value.

Rob Wow. So when you say the alpha pensions and pensions in payment, that means if you're a pensioner, then you got a 10.1[%] increase in your pension.

Liliana You did, yeah.

Rob And if you're not a pensioner, your pension increased by 10.1%, as in, the value that's in the pot.

Liliana Yeah. So your annual pension would have increased by 10.1%. So I highly recommend again, going back to the Pension Portal, your Annual Benefit Statements are released every year. You get it by the 31st of August and again, that shows you what your pension position is and that includes any cost-of-living adjustment. So if you look at your new statement, you know, you will see that cost-of-living adjustment reflected in your annual pension.

Rob So does everyone qualify for that 10.1% Liliana?

Liliana So people who have had their pensions in payment for the full year will qualify for the 10.1% increase but just remember, if you're going to retire partway through the year, you're going to get part of that inflation.

Rob So pro-rated?

Liliana Yeah, exactly. So again, it's going to be paid in full to those who have their pension for at least that year, and then again pro-rated for anybody that's retired partway through the year.

Rob And full year being January to December or April to April?

Liliana Yeah, yeah, April to April.

Rob So just to be clear, if you retired part-way through the year, you'll get part of the increase at the point that you retire, and the rest in the following April, so you'll still get the full increase, but not all at once.

Emily And I think there's more information on any criteria that might mean you don't get the full increase on the scheme website.

Rob So I suppose, back to the point that if someone's worried that they won't be able to accurately plan for their retirement now based on the cost of things going up, because of the inflation adjustment, it's okay to plan based on what things cost now, because the likelihood is, there'll be enough in the pot, even if things have increased in price.

Liliana Yeah, that's right. When you use the modeller, it does run on the assumption that you're earning the amount of money that's in the calculator and assuming no pension increases as well. So you're able to project your benefits and it does tend to err on the side of caution rather than, you know, trying to figure out something in the future. But yeah, you can go with what you've got now.

Emily So it's almost like, this is like the worst-case scenario?

Liliana Yeah, almost. Obviously if your pay changes, your projections will change. Likewise, if you're looking to leave at 65 and you leave earlier or later, obviously your pension will change based on your circumstances. But you know, it's definitely worthwhile to still project because again, your pension retains its value over time. So, you know, you're seeing a snapshot.

Rob And that's probably one of the other really great things about the Civil Service Pension, isn't it? That it is inflation proof, because I guess, you know, one of the things we always say about, you know, a defined contribution pension, the pot, is that, you know, you just hope you don't live long enough to see that run out.

Liliana Well, exactly. And that's definitely unique to Civil Service as well as other public sector pensions that, you know, you're not going to run out of money, your pension is yours for the rest of your life. Whereas DC schemes, you know, you can potentially run out of money and therefore, you know, not have the income that you need in retirement.

Rob Yeah, and I suppose, I suppose just, just to sort of take some of the intimidation perhaps out of thinking about retirement planning, you know, perhaps people need to adjust, or we all need to adjust our mindset about what retirement is. You know, it's a 20-year holiday.

Emily Yeah, you put it really nicely earlier, Liliana, when you said: "life begins when the day job ends". Like, you can literally do whatever you want to do with your time.

Rob It's like every day is a Saturday. Apart from everyone else is at work and you're not, you know. So where can people find out more about that, Liliana?

Liliana So you can find out more about all of these options by visiting our website, civilservicepensionscheme.org.uk/increasing-your-pension

Rob Liliana, you've been great. Thank you so much for taking the time to be with us today. It's been brilliant having you on the podcast.

Liliana Thank you very much for having me.

Emily To find out more about anything that we've talked about today or to tell us about something that you want us to cover in a future episode, head to civilservicepensionscheme.org.uk/podcast.

Rob Make sure to follow or subscribe so you never miss an episode and you can also leave us a review wherever you get your podcasts.

Emily This episode was recorded in June 2023. All the information is accurate at the time of recording. Thanks for listening.