Planning for retirement: how does the State Pension fit in?

EMILY: As well as a workplace pension, all members of the Civil Service Pension Scheme will have a State Pension. This builds up separately and is linked to your national insurance record. And it's easy to forget that it's there, but it's a really important stream of income to factor into your retirement planning.

ROB: Joe McLaughlin from the Civil Service Pensions Training Team is with us today to talk us through how the State Pension works and the role it can play in your financial future. Joe, it's great to see you. Welcome to the podcast.

JOE: Thanks for having me.

EMILY: Okay, so let's start at the beginning. How does the State Pension work and how much of a difference can it really make to your retirement planning?

JOE: So, the State Pension is one of those things that a lot of people know exists, but also, kind of, take for granted a little bit, in many ways. And a lot of people will have some basic facts, knowing that it's going to be an important part of their retirement, but not, in many cases, understanding a lot of the specifics or how to actually go about applying, or when to start looking at it, or the need to think about it ahead of time. The very simple explanation of it is that it's a basic level of income provided in retirement by the state to cover retirement and to make sure that people have at least some kind of income in retirement and that takes burden off elsewhere in the economy. Now, the basic idea for that is that it's based on national insurance. That's the, again, the basic principle of how it works. You pay national insurance, and you build up an entitlement to State Pension as you work. Now, to get something from that, you need to have at least 10 qualifying years, and ideally, up to the maximum of 35 years, where you'll claim the full value.

The qualifying year, essentially, again, is tied to this idea about working and paying national insurance. And for most of us in, kind of, PAYE jobs, you're paying that without thinking about it, as part of your salary. It can also include other things where you can get credits such as parental leave, unemployed in some cases, caring responsibilities, paying voluntary NI contributions as well to, kind of, top things up in the background. So, there is ways and means that you can build that up without being in a standard 9-5, but standard 9-5 is where most people will get that from. You might also qualify if you've been working abroad. It's a little bit more complicated and there's some tos and fros with that, but you can check the GOV.UK website for more info on that, and I'm going to be mentioning the GOV.UK website quite a few times during this. Also regularly reviewed, the tools that are available online may change. So, depending where you are in retirement, you may want to keep an eye on that as you go forwards as well.

In some cases, and again, this is a little bit more complicated, so you may need advice… you can inherit, in the right circumstances, and we'll talk a little bit more about spouses and civil partners, I would imagine, later as well. The GOV.UK website, or if you need to, speak to somebody because it can get more fiddly in those circumstances.

The current rate is £230.25 per week. What exactly you will get comes back, again, to that 10- or 35-years qualifying period. So, if you've got more or less within that scope, that will change the value of what you're getting within there as well. Essentially, those national insurance contributions and top-ups will all affect that value as well.

You don't get your State Pension automatically. Sometimes, people think it magically kicks in at the point that you reach that age, you do have to claim it, not least because the government will need to confirm details with you about where and how you want that paid, et cetera, et cetera, as well. State Pension age is the earliest that you can claim that, and most people are usually aware of the State Pension age, particularly because people often use that as an aim in part of their retirement package. They're kind of aiming for State Pension in one way or another to reach that point of retirement. In terms of our schemes, it will be the same as your alpha pension age. The two things are tied in together. So, in terms of our schemes, people will probably be aware of that, in terms of both State Pension and their personal alpha pension as well.

Also worth noting, you can claim State Pension and carry on working. Some people have it in mind that when they hit that age, that is it, then. They have to retire. And that's not the case. You do need to bear in mind that's another stream of income for you. And you can also defer it, as well. If you do defer it, for every nine weeks you defer it, there's a 1% increase per year. ~ And obviously, depending on where you are in your retirement journey, that may have changed by the time you reach there, but certainly at the moment, that is the position. It’s not necessarily something people are going to aim for, but it's something to bear in mind, if for some reason, you don't claim that initially or other things are a factor, that if you have missed that initial payment deadline, it will actually increase in relation with your claim date, essentially. Again, loads more information about this is available on the GOV.UK website.

ROB: And I guess we can put that in the notes, can't we? To make sure people get all the links they need. So, just to clarify then, Joe, so everyone has got their own individual State Pension. It's unique to them. It's not just a standard amount that everyone gets, no matter what.

JOE: So, broadly speaking, yes, in terms of the actual State Pension you receive, it's unique to you. You will get your own income, that is tied to you, when you claim it, and more or less unique to your national insurance contributions in that way. However, in some instances where you’re married, you can have a link between those two national insurance records. In some circumstances, you may be able to co-rely essentially on some portion of your partner's contributions. Now, the rules for that have changed over time. For those who reached State Pension age before 2016, the rules were a little bit more complicated. Presumably, anybody that's worried about State Pension age that falls into that category has already claimed. Women now reaching State Pension age may be able to claim out of their partner's record if they had paid the reduced rate election or “married women stamp” as it was often called. And that does allow for some cross claiming, essentially, or use of your partner's record to boost your own contribution rates, essentially. The rules, again, can be complicated depending on the exact circumstances. There are, sort of, ifs, buts, and maybes attached to that. Inevitably, it's never that straightforward. So again, if you think that might affect you and you need to rely on that, GOV.UK is the place to go.

ROB: But you know, in a nutshell, you pay into your State Pension for a period of time and that is linked to what you then get every week when you are eligible to claim it. But then, there may be things in your life that add complication, and you'll know what they are when it comes to claiming it, presumably.

JOE: Yeah. Yeah and the majority of people work most of their career and because the limit's 35 rather than say 40 or 45 [years], most people will hit that naturally through their own careers. But for those people that fall outside that, for whatever reason, there are ways to boost that or change around how that works. Yeah.

EMILY: So, for those who are starting to think about their retirement, making financial plans, maybe they've got multiple pensions or streams of income, perhaps they've moved jobs a few times, as many of us do over the course of our careers. I'm assuming that means, then, that the tax situation gets a little bit more complicated, as well?

JOE: So, tax in relation to pensions often introduces, for a lot of people, a slightly different way of having to think about tax, because many others are used to tax being deducted at the source. It's based on your salary rate and it's fairly straightforward. Your workplace does it. You don't really think about it. As a lot of people move into retirement, particularly people who have moved jobs, they might suddenly have several sources of income. As a basic for most people, they've probably got at least one workplace pension and then the State Pension. That's two sources of income straight off. Many people will have multiple pensions, and you've therefore got several different sets of income to worry about. But also, having to think about your position in terms of that total income, and jotting those up in terms of when and how you're claiming them, and reaching those kind of tax limits. Now, all pensions are taxable because they're a form of income. You don't pay national insurance on them once you claim them, but they are all taxable sources of income. Now, the limit is £12,570. At the moment, your State Pension brings you very close to that on its own, within a few hundred pounds of that limit. So, almost basically as soon as you're claiming any other pension, it's probably going to push you into being taxable. The question is then, how taxable? Which, kind of, bracket beyond that are you pushing into? That is something to take into account when you're considering what your net income is going to be, when you're planning into the future - because if you're planning out what you need for a certain level of income and how many holidays to the Maldives you can have every year, or to Clacton, or wherever you're going - that's the kind of thing you need to take into account. That, kind of, fine tuning about where that sits, as well. Depending on when and how you're claiming that, and of course, if you're still in work, you might be claiming salary and other pensions, you need to consider any streams of income, essentially, in terms of that tax position, and just make sure you're aware of your long-term position.

ROB: And the tax-position that you talk about there, you would have to, effectively, complete a tax return, presumably, then, to reconcile that, because it's not going to be taken out at source, like it is with your salary.

JOE: There's not a straightforward answer to that at least in terms of my experience, in terms of how this works, because different forms of income will have different means of measuring and applying that. So, some sources will be applying to HMRC and getting a tax code and applying it according to the guidance they've been given that way. In some other circumstances, you may need to be doing that yourself. Again, in those terms, you're getting into that, kind of, level of detail, you probably need to speak to HMRC just to double check that, or the schemes involved if you're not sure about where and how that's going to be deducted.

ROB: Okay, yeah, that's a good point. So something that we've heard, or that I've heard people mention before about the State Pension is ‘contracting out’. Like, could you tell us a bit more about what that is, how it works, what it means?

JOE: Essentially, prior to 2016, the state offered an option to pension schemes whereby you could opt out of an element of the State Pension. And in return for lower national insurance contributions and a rebalancing of costs in general, the members of schemes who were contracted out would pay a lower rate of national insurance. So, they pay less national insurance, but equally they would only be qualifying for the basic rate of State Pension. They'd be opted out or ‘contracted out’ of the top up element known as “SERPs” or the Additional State Pension in the past. Now, that was the case for a long time, certainly with Civil Service Pensions until 2016, when the rules were changed and the State Pension was changed to a kind of flat rate, essentially. So, the only really differential became that year's qualifying service, so the 35-year rule.

Many people will remember this, that were affected, because there was a big hike for national insurance in 2016 and employees had to inform members about what that was and why that was happening. But what it does mean is, prior to 2016, people were only paying for the basic rate of State Pension. Now, realistically, that was obviously about nine years ago, at the point of recording. So, people will have been paying a full rate for nine odd years since then. You'll also have been paying probably in excess of 35 years anyway, in most cases, and that will make up some of the shortfall. But for anybody affected by that, that may be in that position, again, it's well worth checking your position, understanding where you're up to with that overall national insurance contributions Package, and again, GOV.UK.

EMILY: Okay, so what's the best way, then, to find out how your State Pension is doing? Where would people find that information?

JOE: You might be surprised to know, Emily, it's GOV.UK. They've got loads of information on there. There's all sorts of tools on there, both in terms of looking at where your State Pension is up to you, but actually, also things like your national insurance record and stuff like that, as well. They've got several sets of tools on there that are… they're useful to plan. If this is the first time you're thinking about it, it's worth just having a nosey, just to get a feel for what the whole thing looks like in the first place.

And potentially, depending on circumstances, you can kind of back pay to fill gaps, but there's again, there's a few ifs, buts and maybes in that depending on exactly when that fell. It's worth having a chat with GOV.UK if you're worried. In many cases, of course, unless you're getting close to it and you are short, you've got plenty of time to make that difference up anyway. In terms of information supplied elsewhere, as well, it's worth bearing in mind that most, kind of, retirement modelers, including ours, don't usually add State Pension into that because they won't know what your national insurance position is.

So, when you are looking at, for example, our modellers and planning ahead, it's worth considering, on top of that, what your State Pension is going to be, when that will kick in, and take that into consideration in terms of your overall planning as well. The earlier you can do that, the better, as well, because making up national insurance or paying those additionals, you may need some time to do that. The further ahead that you can think about it, the more flexibility and time that gives you to make those kind of additions as well. Also, the opportunity to plan for any future career breaks or things that you might be considering in the future as well and think about what that might mean to workplace pensions as well as the state one. And that, all at this point in time, could make a huge difference to where you are in retirement. So, further ahead you are, it's never too early to start thinking about your State Pension.

ROB: Wow, so much information, Joe. You're like a font of knowledge about the State Pension. We feel like we've been very educated, Emily, don't we?

EMILY: Absolutely.

ROB: So, thank you for joining us.

JOE: Thanks for having me.

ROB: To find out more about anything we've talked about today or to tell us what you'd like to cover in a future episode, head to civilservicepensionscheme.org.uk/podcast.
You can also find links to information, transcripts and accessible versions of this podcast in the episode description.

EMILY: Make sure to follow so you never miss an episode. We'd love to hear your thoughts and feedback on this series, so please do leave us a review wherever you get your podcasts.

ROB: This episode was recorded in July 2025. All information is accurate at the time of recording. Thanks for listening.