

Podcast Transcript:

The cost of living: how does it affect your pension?

Emily Today, we're talking about something that's affecting many people in the U.K. at the moment, the cost of living. We'll be looking at what it means and how it affects your pension.

Rob In the studio with us today are Kerrie Cureton-Williams, Deputy Director from Civil Service and Royal Mail Pensions, and Thomas Lynas, Money Advice Supervisor for the Charity for Civil Servants.

Emily Kerrie, Tom, thank you so much for being here with us today. Can we just start off with each of you telling us a bit about ourselves and your roles? Kerrie, should we start with you?

Kerrie Yeah, sure. So I've been Deputy Director in Pensions since late 2018. I'm actually passionate about pensions. They're so important and I'm a pension scheme member.

Rob So we can definitely hear about it from your perspective today, Kerrie, Great to have you with us.

Kerrie Thank you.

Rob Thomas?

Thomas I've been with the charity for five years and I previously spent time working with local authority money advice agency. I am based in Scotland, but I provide advice for the UK, and I've been accredited to do so. I've spent time working in the insolvency sector as well, and I am currently a board member of Money Advice Scotland.

Rob Great. Good to have you with us. So let's start off with the basics, shall we? Kerrie, welcome to you first. What do we mean by cost of living?

Kerrie It's the costs of everyday essentials, things like food, fuel, energy, mortgages. We know that they're all increasing faster than the average household income. Everyone's noticing it. And keeping pace is just becoming so challenging for some people, if not most. The word inflation is bandied around quite a bit. It's simply a measure of how fast costs rise. I mean, we've always got inflation, but it's been so low for so long. But at the moment, it's a lot higher. So consumer goods and services are rising at a faster rate at the moment than they have for decades. The annual inflation rate earlier this year was running at 9.2%. It's the highest in 30 years. It's a lot.

Rob Yeah. So with that increase, presumably that means that's what's causing things to become more expensive.

Kerrie Absolutely. And as I say, it's at a point now where I don't think there's a household apart from maybe the super-rich who aren't feeling it.

Emily Yeah. Yeah. It's a really good point. So what is making this happen? Why is it so severe?

Thomas Various factors have been pushing costs up rather than specific items just becoming more expensive. Broadly speaking, Russian supplies of gas contributed to rising energy costs, and grain distribution has been impacted by the war in Ukraine. Supply chains have bottlenecked in the face of strong demand, and this is on top of a general costs of goods going up. Civil servants alongside everyone else are having to manage tight household budgets and juggle costs.

Rob Yeah, I think we can probably all testify to that. Sitting around this table, can't we? So we've seen plenty about this in the news. And I suppose as we've kind of indicated, you know, in our own personal experiences, perhaps what we've heard from friends and family about pressure that they're feeling within their day-to-day finances. But Thomas, how could this affect our pensions?

Thomas Yeah, I think realistically, many people's focus is on short term planning. We had a lot in the news about how things are bad, and we need to hold our nerve before things start getting better. This has been suggested through tax cuts and lower interest rates. This makes it very difficult to plan because we've no idea when or how things are going to change. Research by Barnett Waddingham suggests people are cutting back on retirement planning to keep their outgoings down. Naturally, many will not be prioritizing saving for a future, particularly for retirement as 20 or 30 years away, especially in the face of rising mortgages, rising childcare bills and grocery prices. Research suggests that 6% of people are planning to reduce their workplace pension just simply to keep up with the cost of living. It's no surprise that 30% of UK consumers are tapping into their savings and 12% are relying on their credit card for everyday expenses. And almost half of consumers are using a savings account to save for retirement. Almost one in ten full time workers aren't able to save for retirement because they earn less than £10,000 per year. This means that they were excluded from auto enrollment. So not only are we earning less and finding it difficult to make ends meet, they're also at a disadvantage because there's less in their workplace pensions to look after them in later life.

Emily Yeah, that makes sense. If you earn less and you're saving less. We talked about that in the first series when we were talking about the Gender Pension Gap, weren't we?

Rob Yeah. Well, women who are going on maternity leave or people who are taking career breaks, you know, all of those things will have an impact on your ability to save for the future. I suppose those people who are members of the Civil Service Pension scheme are, to a certain extent, more insulated from inflationary rises than people who are members of other schemes. By virtue of the scheme, you know, increasing with inflation. Is that right, Kerrie?

Kerrie Yeah, I mean, I think sometimes people just don't understand what a great, in effect, savings scheme the civil service pension scheme is. It's not just what they're contributing and what the employees are contributing. So it's really important that people kind of get to grips with it and think of it more as future earnings rather than saving as you would in a... in an account for holiday or something.

Rob It's interesting that given that the cost-of-living is a topic that we hear about a lot in the press and a lot of us feel in our sort of everyday lives. You know, when we talk to members at events like civil service life, our expectation is that most members are going to be thinking about reducing or cutting their pension contributions. But actually, a lot of people are thinking the opposite. How can I boost... how can I boost my pension? How can I save more into my pension? You know, how can I feel the pinch in other areas so

that I don't necessarily have to do that later on in life, which I think, you know, is quite encouraging actually, and sort of makes, it makes you think that civil servants are, you know, more savvy than perhaps we gave them credit for.

Kerrie Very possibly.

Emily Yeah, absolutely. And, you know, if we look at the members of the scheme in particular, I've got a few stats, like in our latest Active Member Newsletter, which went out in March this year, and we asked how likely members were to consider leaving the scheme because of the cost-of-living increases. And 16,000 people responded to that poll in that newsletter, which is far and away the most responses we've ever had on a poll in a newsletter. And about 95% of them told us that they're unlikely or very unlikely to consider leaving, and the remaining 5% said that they're either considering switching to partnership as an alternative or they're thinking of opting out entirely, which, as we say, is really encouraging because they're generally not looking to opt out of this workplace pension. And the small percentage who are thinking about it, you know, it's kind of in line with the 6% figure that we mentioned in that research. And we also know that I think it's almost 80% of civil servants who earn less than £40,000 a year, so the majority of the civil service workforce are not particularly high earners. And we know that our opt out rates in the scheme are very low in general, so I think in August 2022, the opt out rate was 0.8%. And when comparing that to an average in the private sector of about 10.4[%], you know, it's obvious that people really value the scheme and it's a great scheme. And I think a high percentage of those who have opted out are under 30 years of age and they earn less than £30,000 a year. So one reason that they gave us for opting out was affordability. You know, that cohort might have student debts, amongst other things, and other financial priorities and strains. So it's understandable that, you know, paying into a pension might not be their first priority right now.

Rob So for those people who are considering opting out, which I guess you could understand, given what people are going through at the moment, Kerrie, what are the key points that people should think about before they decide to opt out?

Kerrie So I think the first one is recognize this is a really valuable thing that you have. Your pension scheme is there to pay you when you can't work anymore or you don't want to maybe, or you're choosing to work less. So that's the number one thing, it's your future salary that you're earning today. In effect, you don't pay income tax on your contributions. And so have a look at your pay slip every hundred pounds that you pay into your pension scheme, if that was converted into salary, you're going to get taxed on that £100. Not only that, but you're missing your employer contribution, which is on average about 27% of your salary goes into your pension scheme.

Rob It's free money.

Kerrie It's free money. You're saying no to 27% and a tax break on the bit that you have to contribute to. So think long and hard. Is there somewhere else that you could save and make sure that you keep going with your pension? It will pay dividends later. If you're not sure how your pension is doing, have a look at your Annual Benefit Statement. You can get it on the portal, have a look and just see how quickly it's risen over the last 12 or 24 months and you'll start to appreciate just how valuable this is in the future. This could be a really big chunk of your income when you retire, even along with your state pension, it's still likely to be a good chunk. The alpha scheme is an excellent scheme and pays well, so I think that's the first thing I would say. The second is, it's probably the safest place to keep

your savings for tomorrow. It's so safe, it's what we call a defined benefit scheme. So there isn't any pot of money that has to go into the stock market and be invested in anything. It's all held in the Treasury, it's all a calculation and it's safe. It's probably, as I say, the safest way to save for the future.

Rob So there's no kind of risk reward associated with the defined benefit scheme, like the risk with a defined contribution invested in stocks and shares?

Kerrie Absolutely. Basically with a defined contribution scheme, there's a little pot with your name against it and it can grow at different rates. With the defined benefit scheme, all the money is held together and when your turn comes, your calculation is there. You can see what you're going to be getting.

Rob Yeah, and we cover that in quite a lot of detail in the first episode of series one, Pensions 101, so if you want to learn more about the difference between defined benefit and defined contributions, a good place to start.

Kerrie There's some other stuff I think as well that people really need to think about in terms of opting out. So one of them is kind of the selfish bit. So as a member myself, as I start to get towards retirement age, I might decide I want to go part time, but if I can't afford to go part time and I've reached the minimum age for drawing my pension, I can actually draw some of my pension. It's called partial retirement, so I can still afford to do the things I want to, work less, start to wind down towards retirement, stepping back... selfishly, that feels really nice. And it's a great benefit to the team that you work with in being able to sort of move away slowly and starting to let go of things. If you opt out, you can't partially retire. So that's one to think about as well.

Emily That's a really good point. Really good point.

Kerrie It's hard to think about when you're only 25, 28 years old, but believe you me, you'll be thinking about these things much more quickly than you ever imagined.

Emily Absolutely.

Rob When you've got 30 years of work under your belt. Yeah.

Kerrie It's also about thinking about your loved ones. You know, if you have a partner that you're financially independent with, you don't have to be married to them, just somebody that you're living with, in a partnership, in a relationship, or if you have children... if something happens to you, the Civil Service Pension scheme provides benefits, which means that there is likely to be a lump sum payment, subject obviously to the criteria of the scheme, and also dependent pensions payable. So it's not just all about you. And again, I think that's really hard, especially when you're younger and single to think about that. Yeah, but it's easy to not think about it and then forget it. And then should that time happen, there's nothing there to support the people you love. So it's another reason to give thought to it. There are other benefits attached to your pension scheme, not just your pension.

Rob Well, for me, I mean, I always think that a dependent kind of element of the of the scheme is always it's an additional kind of marker of the generosity of the scheme that you could pay into this pension, you know, for your entire working life. You can draw the pension and then you can pass away and yet your loved ones may still be able to qualify

to still receive some of that pension after your death, which is, I mean, it's you know, it's quite unbelievable that really, isn't it? So all the all really good points, Kerrie. And I'm sure that, you know, anyone who's listening who's on the fence, it will give them quite a lot of food for thought. And there's a lot of information about that, you know, on the scheme website as well. So if after hearing all of that, I'm thinking, well, look, that all sounds great, but I've got financial problems now and I need that money in my pocket now. What can people do?

Kerrie Yeah, I mean, it's a reality check, isn't it? For some people, they can be listening to this podcast right now, sit down, run the figures and say, "I just can't do it." So what I would say is, first and foremost, if you are going to opt out, then remember you can opt back in. So that's the number one thing. So don't forget that. Put a reminder in your calendar, annual if you have to, to remind yourself to opt back in. The second thing is, if you are going to opt out, don't opt out of a pension completely. We have something called the partnership pension. That allows you to pay in a smaller amount or even 0%, and you will still get an employer contribution. So, you will still get what we called earlier, the free money. It's not going to be at the same level as the main civil service pension scheme, but in partnership, you will get something. So you are still saving a little bit and not throwing money away. And even if, maybe you could only afford 1% or something like that, if you can pay a little bit more, the earlier you pay, the more that will be there at the end.

Emily So there's a lot more flexibility in something like partnership.

Kerrie Massive flexibility. Massive flexibility. And it is slightly weighted as well in terms of age. So the older you are, the higher the employer contribution is into that scheme. But for goodness sake, if you take nothing else away from this, if you really can't afford it, don't opt out and not opt into partnership.

Rob Yeah so you still get the free money without having to sacrifice any of the money in your pocket right now.

Kerrie Absolutely. As I say, you won't get as much. It's a different scheme, but it's still free money, in effect. It's something that you will get that your employer will pay for you.

Rob Very generous. So anyone who's listening who's worried about money, what can they do to take the pressure off without sacrificing their pension contributions?

Kerrie I think the number one thing at the moment is that there will be a one-off £1500 payment this year as part of the salary review for all staff. So as well as your salary uplift, each department will be working out how to pay that. So there is a little amount of money coming your way in that respect.

Rob When you say this year, that's 2023, July 2023, which is when we're recording this, just in case anyone's listening in the future.

Kerrie Yeah, it is a one off, I'm afraid. And also different departments will pay it at different times. They've got slightly different arrangements. So it might take a little bit longer to filter through for some. So just check on your own intranet sites, I would say. And I would also say as well, I don't think people take as much notice of some of the wonderful discounts that are available. We have something called Edenred and you just go into the intranet site for your employer, register yourself on there. There's all sorts of different things, even reducing your grocery bills from most of the major supermarkets. You can do something to

reduce your bills. The other thing I would say is, personal trick, I always ask. I always ask. So if I'm renewing my car insurance or whatever, when we're finished and we've got the best deal, I always say, "oh, by the way, is there a discount for civil servants?" And I can guarantee, nine times out of ten, the answer is yes.

Emily That's a great shout, Kerrie. I used to do that. I worked in the NHS for a couple of years on the amount of places that I wouldn't even have thought do an NHS discount and they do... Yeah, it's always worth asking that question, 100%.

Kerrie Absolutely. I've done it with my gym membership. I've done it with house insurance, car insurance, so many different things.

Emily Even like, eating out, I found.

Kerrie Absolutely. And we know, as you said, Rob, it's July and we know that there are changes to energy prices, that they're coming down slightly. So if you haven't already done so, make sure you get your meter readings in so that you benefit from the lower energy prices.

Rob One thing I found actually, with that, is I got an email from my energy supplier that said the cost of energy is coming down, but we're not going to change the value of your direct debit. If you want to do that, log into your account and change it or call us and change it. So I guess that may be another little tip for somebody you might be listening.

Kerrie Absolutely, and, you know, this is not an area that I know well, but I know somebody who does know it, and that seems to be Martin Lewis. So keep an eye on Martin Lewis and take his advice on when to maybe look for locking in a deal.

Rob Yeah, absolutely. So is there anything you'd add to that, Thomas?

Thomas Yeah, the first thing I would say would be check your subscriptions. There are so many subscriptions available to us nowadays - streaming services, magazines, meal delivery services. We've all got them. But if you're looking to cut back, this is probably the first place to have a look, whether that's you individually or whether it's part of your household, whether it's plants, socks, a newspaper or magazine, an app or a streaming service, list whatever it may be and add how much it costs every month. It could be on a page or a spreadsheet or even on your phone. It will give you a greater visibility of these kinds of expenses, and it'll help you to identify anything that you want to get rid of. One thing I'd recommend is a financial cleanse. This involves looking at your finances and trying to work out habits that can be counterproductive, whether it's an expensive takeaway, a subscription that you don't really use. We don't necessarily encourage this type of spending to stop altogether right away, but it's usually a good place to start if you're struggling to make ends meet or you're looking to meet financial goals.

Rob I like the idea of that, a financial cleanse, that sounds very , sort of, spring cleaning for your finances. It's quite a good idea.

Emily I saw, I think it was an Instagram reel or a TikTok or something, and it was like a 30-day financial cleanse and every day was a different activity, and one of them was what you've just mentioned with like subscriptions and just making a list of everything. Even if you decide, actually I don't want to get rid of anything, you have greater visibility of everything that you spend money on. So you're making a more informed choice, right?

Thomas I think when COVID came around, a lot of people sort of fell into that trap of having X, Y, and Z subscriptions. And that was great when we weren't allowed to do anything, but now we're allowed to go out and socialize again and we don't need all these subscriptions. So there are maybe one or two that can stay but equally, there's probably some that you're paying a lot of money for that you aren't getting any benefit from. And the way they work, they can be dealt with on a monthly basis. So there's nothing to stop you trying one, one month, and then moving on to another, another month, and that helps bring the annual cost down altogether. Another thing I'd recommend is cutting down on marketing emails. I think we all get bombarded with offers, discount codes, sales, etc. and it's just so tempting to spend online. What you can do is create a decoy email address for all these types of emails to go to and this removes the distraction and the temptation. Often, when you're shopping online, you'll be asked to supply an email address when you go to checkout to access a sale or on offer. Set up a free email address, something like yournamejunkmail@..., for example, and use that whenever you're asked to provide an email address. It'll help to reduce the amount of marketing you're get in your inbox without missing out on offers that you actually do want to use.

Rob That's such a good idea.

Emily Great idea.

Rob I get so many of those emails and you know what happens? You look at, I don't know, Levi's or something like that have sent you an email and then suddenly you're like, I really do need a new pair of jeans.

Emily Yeah.

Rob I do - the ones I've got have got a little mark on them, you know, I need some new ones. And you convince yourself that it's like a necessity to have them. But actually, you don't need them at all!

Emily Yeah. Or you get an email about a sale and you're like, "Oh yeah, I do actually quite like that...it's a good deal" and you don't need it.

Rob It's buying things that you wouldn't normally buy just because they're on offer.

Emily Because it's in front of your face as well.

Thomas I think it's good to give yourself a cooling-off period. Don't just think I'm going to buy this. Give yourself 24 hours. Do you need it? Could that money be spent better elsewhere?

Kerrie The reality is, if you actually do see something you want, stick it in your shopping basket...

Rob Wait for it to go on sale.

Kerrie ...leave it and you'll be surprised. About 48 hours later, they offer you a discount.

Emily It's so true and it's such a good point. And you know what you said just before, Tom, when you were talking about like a cooling-off period. I've saved myself so much money by

using that rule because I'll see something and I'll think, I'm just going to walk away from it. I normally give myself like a few days or a week, and I'll think if I can't stop thinking about it, I'll come back to it and then I'll decide it's want.

Kerrie It's a really good idea.

Emily Nine times out of ten, I don't go for it.

Thomas It's great marketing, but realistically, do you need it? And that's where it boils down to. If that money can go elsewhere, it's not really a good idea is it?

Rob Do you know I've just realized, I'm an absolute sucker for a marketing email.

Thomas Are you?

Rob This has been a journey of self-discovery for me, this.

Emily Okay, so one last question. Where can members find a little bit more information and advice and guidance if they're really struggling at the moment?

Thomas If you're under 50, MoneyHelper has a great cost of living guide and their website's full of free information and guidance to help make money and pension choices clearer. So check that out. If you're over 50, PensionWise, which is also a service from MoneyHelper, is another government-backed resource offering free impartial guidance, they can explain your options to take money from your pension pot. It's also worth checking if there are any benefits or grants you're entitled to. Billions of pounds go unclaimed every year, simply because people aren't checking what they qualify for. The best way to check is to use the benefit calculators on the government websites. They will help you quickly understand if there's any additional support available to you.

Rob That's a really good tip on benefits. I think a lot of people don't think about benefits do they? They think...

Emily "Oh, I won't be entitled to anything." But you might be. Billions? Billions are on the table unclaimed every year. That's crazy.

Thomas I mean, it can take 5 minutes. It's worth looking. What's 5 minutes to you? If you think that there's a potential for getting some additional income, go and check. And then if it gives you a suggestion that you're entitled to something, then take the time to go through the application process.

Rob Brilliant

Emily That's great advice.

Rob Well, Thomas and Kerrie, thank you so much for taking the time to be with us today. It's been really good having you on the podcast and deep diving into this really important topic.

Kerrie Thank you for having us. Yeah, it's, it's a really important one. And it's a reminder as well to people that, you know, even if they're managing okay, they might know

somebody in their family or a friend who could do with a bit of help/support. So share it with them.

Thomas Thank you.

Kerrie Thank you.

Emily To find out more about anything that we've talked about today or to tell us about something that you'd like us to cover in a future episode, you can head to civilservicepensionscheme.org.uk/podcast. This episode was recorded in July 2023, and all the information covered in this episode was accurate at the time of recording.

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Emily Thanks for listening.