Transcript: Leaving the Civil Service or opting out of your pension – what does it mean for your future?

Rob Hello and welcome to this episode of Civil Service Pensions Podcast. I'm Rob Walker from MyCSP.

Emily And I'm Emily Eccles, also from MyCSP.

Rob Today we're talking about what happens to your pension if you opt out of the scheme or leave the civil service.

Emily We're joined by Andy Jones, Engagement Manager for Civil Service and Royal Mail Pensions in the Cabinet Office, and Jane Bates, Head of Function for Life Events at MyCSP. So welcome Andy and Jane, thank you for being here with us today. How are you both doing?

Andy Decent thanks.

Jane Good. Thank you.

Emily Good. Yeah. All good. So before we start, obviously we know you both really well, but it'd be great if you could tell us a little bit about yourselves and your roles. Andy, can we start with you?

Andy Yeah, sure. So hi everyone, Andy Jones, Civil Service Pensions Engagement Manager. My role basically entails to make sure that you, our members and listeners actually engage with your pension and get the most out of it. So in a nutshell, by working with obviously the wonderful guys in MyCSP like Rob and Emily to develop the tools, communications, processes so it's- things are easy to manage.

Emily Great. Jane?

Jane Yeah so hi, everyone. My name's Jane Bates. I'm head of Life Events for MyCSP. I work, I'm based in our Cheadle office, and we deal with all sorts of early leavers, so opt outs, people leaving in less than two years, people leaving after two years, we deal with transfers in or out the scheme and we deal with added pension/added years also.

Emily Okay. Great. Thanks. Thanks again for you both being here. Andy I'm going to come to you with the first question, so we know that there are some members, a of vanishingly small number, I think, that opt out of the scheme from time to time for various reasons. What do you think drives people to leave?

Andy Just on the first point, we do have a really low opt out rate in the Civil Service, less than 1%. It's really, really good. So I'd love to keep it below that, it's fantastic. But one of the main reasons why people opt out generally is because people can't afford to pay contributions. So it's obviously financial reasons, things like that. Um, you know, some people have other priorities that they want to pay for. So they may have debts like student debts, they might want to get on the housing ladder, so they want to pay off the mortgage or rents, things like that, or simply they don't want to save for a pension. You know. And that is one of the big reasons for it. Young people or the younger generation don't generally think about pensions as now, they want to see an instant thing now not something that's going to happen to them in 30, 40, 50 years' time. So, it's those general problems, I suppose, why people would opt out of the scheme. And the other side to it is lack of education about what your pension actually provides you. The easiest way to understand it is, how are we going to survive or what can live on to give you a lifestyle when you do retire? What's going to be your income? Are you that financially savvy that you could survive and live on the State Pension? If you're saving enough, obviously, a year towards that. And everyone wants a nice, comfortable retirement so having savings of some description to provide that would be fantastic. And one that I mentioned before about the lack of understanding of certain parts of the scheme that you can trigger where you don't actually have to save, things like that.

Rob I just want to pick up on a point you've made there, Andy, because it's quite an important one, isn't it? When it comes to people opting out and that's, you know, for people who retirement is sort of 30, 40, 50 years away, that's got to be a real challenge to get them to see that, you know, that the decisions that they make now are going to have an impact that far down the line and for them to feel that that's something that they've got to think about or do something about now. How do you deal with that?

Andy One of the things that we do have, and I think has been a massive success on the Pensions Portal, is the retirement modeler. So people can actually see and project what they're going to get. I mean, when you're mixing the study that the Loughborough University did for the Pensions - sorry not Pensions - Personal Lifetime Savings Association, so they developed all these retirement living standards, it gives people a good visualisation of how much they'd actually need and utilising then the retirement modeler on the portal with that individual's information to predict, 1 - what they're going to get and 2 - give them the lifestyle they want when they retire. It's really good to see and see where those contributions that the members are making, where it actually goes and what that's going to provide them with. I mean, one of the other things that people often forget about, it's not just a pension for you. It's a pension for your spouse, partner, civil partner in the event of your death. There's a lump sum there if you die in service as well but also, it won't protect you from ill health but there's ill health protection there if you become too ill to work. Your pension can be brought into payment so you're not suffering from financial hardship. So it's not just about thinking about you, but also your loved ones as well.

Emily That's a really good point and really powerful point. I think, you know, if you're quite far away from retirement and you're thinking about, you know, can I really afford to be a member of the scheme? I think the answer is actually, the question is actually, can you afford not to be a member of the scheme? Because it's not just for you, is it can be for your loved ones and your family as well.

Andy And that's a big thing that people who are new to the scheme are unaware of. It's like I said before, it's that lack of knowledge of that rounded benefit that is there, which is contributed obviously by members themselves but also generously by employers as well. On average 27% in the Civil Service. When I was in the private sector, it's usually about 4, something like that. As a minimum they have to contribute 3 as long as a member pays 5% in the private sector, whereas the Civil Service departments pay on average 27%. You know, you can't really compare how generous our pension scheme actually is.

Emily Yeah. Yeah. And that really enforces, reinforces the point we've mentioned in other episodes actually about it's, it's your biggest benefit after your salary. Right.

Andy Yeah, definitely. Definitely.

Rob So Jane, you and your team are speaking to people who are going through that sort of thought process of, well, actually, can I really afford this? What sort of conversations are you having with those people? You know, are they citing affordability as the reasons that they, you know, that they want to opt out?

Jane Yeah, definitely. At the moment there seems to be a rise in affordability being the reason for opting out of the pension scheme. Um, we do always go back and advise them to read the document, you know, the opting out form does state all the benefits of staying in the scheme and everything. Unfortunately, some people just, they just see that extra money in their pay packet and they're not sort of looking ahead to the years in the future.

Rob Yeah. So presumably if people are struggling financially, there's advice that we can point- because we can't, we can't give advice can we? But we can point them towards resources that will help them.

Jane Yeah, definitely. On the website there's a section on opting out and what you are actually giving up, if you do opt out of the scheme, you know, making it clear that your benefit isn't just the pension at the end of it, as Andy said previously, you know, you are covered should you have ill health or should you pass away while you're in service, things like that. You know if you pass away and you've got young children, we provide a children's pension from it. So there are lots of other benefits other than the pension at the end of it when you retire to consider.

Rob I suppose, you know, certainly from Emily and I's perspective of kind of being pretty, you know, novice, you know. Well, to being novices to the world of pensions relative especially to you two, having recorded a few episodes of this podcast now, it's really clear what to us, you know, kind of what people would be giving up if they did choose to leave the scheme. And I suppose from our perspective it's, we really want to let people know how great they say it is and I suppose it's quite it must be quite hard for you because you're dealing with that day in, day out. You must be getting sick of hearing yourself say that.

Jane Yeah, very much so. You know, obviously I'm in the pension scheme. I'm lucky to be in this pension scheme and I would never consider opting out because of the benefits that you get. It's so important to me, especially as I'm slightly older now, to make sure that I've got those provisions for when I retire. You know, I, I couldn't live the lifestyle I want to on the State Pension. And being in the pension scheme gives me the options of having a slightly better lifestyle when I do retire and being able to do the things that I want to do when I don't have to go to work.

Rob And on that, you know, people might think, well, I can fall back on the State Pension. What is the State Pension payment now, Andy?

Andy It's about 9000, about £180 quid a week, something like that on average.

Emily 9000 is the maximum isn't it?

Andy Yes, that's right. It can be lower if people haven't paid. It used to be called stamp. What I would always recommend civil servants do or any other public sector workers to do who may be listening to this podcast, is to go on the gov.uk website to check how their state pension is progressing. Because the sooner you are aware of where your State

Pension is at as well, the more time you can have to make up any shortfall you have. But also to understand any options, if you have got a shortfall, to actually make it up as well.

Rob But I suppose, you know, just tying it back to purely sort of practical terms, £180 a week, 9000, whatever it is, a year is actually a really vanishingly small amount of money. If you go back to that University of Loughborough thing, which we looked at together, I think it said that to maintain a minimum standard of living, which is a roof over your head, heating, lighting, that sort of thing, as a single person household, you need something like £11,000 a year. So the State Pension just doesn't cut it on its own.

Andy The State Pension is obviously there to provide a very, very basic level standard of living and your pension is supposed to be there to step up and provide you with that better lifestyle. So me personally, I wouldn't ever rely solely upon the state pension to fund my retirement and have that, as you were saying, Jane, that lifestyle that I want. Can I just add as well, Jane, you've got a young heart as well.

Rob And young eyes.

Emily It's probably worth just adding, I'm just thinking for the other pension novices out there like me and Rob, the State Pension comes from your national insurance payments and to get the maximum which we think is about 9000 a year at the moment, you have to have, I think is it 35 years of national insurance contributions to get that maximum?

Andy Something like that. Full national insurance contributions as well.

Rob So before we move on to sort of talk about, okay, given all that, I still on opt out and what are the alternatives, I just want to just cover this point on, you know, people who are early on in their career who might be experiencing sort of financial hardship, you know, especially at the moment, who think, well, I'll tell you what I'll do. I'll cash out what I've put into my pension, and then I'll just start paying back into my civil service pension, you know, in a few years’ time. Does that work out? Is that logical or, you know, what would you say to someone who is kind of thinking about doing that, Jane?

Jane I would say think about what you're giving up for short-term gain. You know, in the long term, I think it's really important, the more years that you're kind of in the scheme, the better your benefits. So I would, I would possibly look at other alternatives rather than opting out of the pension scheme, because I think the pension is so valuable when you get to retirement age. You know, like I said, everybody wants to be comfortable when they retire, you don't want to have to watch every penny and you know, for taking out your contributions for, you know, which you can only do if you've been in the scheme under two years, you know, for short-term then it's probably not worth it. People, I would suggest, should look at the bigger picture and the benefits they get, you know, like we've covered, you’re covered for death and things like that in the scheme.

Andy Yeah and by getting a refund, you're obviously wiping out everything that you've accrued from a death and ill health perspective.

Rob And you're not getting them 27% contributions in your pocket. Are they just lost?

Andy Exactly. Any refund that you get is solely based on the contributions you made. I'm sure we deduct tax as well.

Jane We do, we do.

Jane And of course, when you pay your contributions out of your salary, you don't pay tax on them.

Rob And when we say the pension is so valuable; we don't just mean generally pensions are valuable. Of course they are. But this pension specifically is valuable and that's because of the way it builds up, Andy.

Andy Exactly. So the scheme build up rate in alpha, which is the main scheme, is 2.32% of everything you earn in between the 1st of April and the 31st March and that's a guaranteed amount. There's no risk associated to it, there's no investments anywhere. That is a pure pension that an individual has earned. So after a short period of time, the scheme build-up rate is extremely generous that people after, like I say, a relatively short period of time have a generous pension there straight away.

Rob And they've got that for life, there's no end to it. Unlike these pensions, which is a pot of money that will run out one day.

Andy Yeah, eventually, yeah. A lot of private sector pensions are solely based on the contributions that are put in, are invested and based on the returns helpfully that the market conditions would allow it to- for your investment to grow. So you have a good healthy pot, but that is a finite pot that is, would continue to dwindle down over a period of time. Whereas with benefits from the Civil Service Pension Scheme, it is a guaranteed amount for life and even then, let's say it's in payment for 20, 30 years - fingers crossed everyone lives for that - when they start drawing a pension, you know, if you are succeeded and you have a spouse partner or a civil partner after that, then a pension is there, payable for the rest of their life as well. I do understand why people opt out and I fully appreciate why, but the, it's the… so I think you mentioned it before, Jane, is think about what you're giving up and what you're losing by doing that. But it's thinking about what, what I mentioned before, about the lack of knowledge is knowing what alternatives are out there for them offered by the scheme.

Rob …which leads on really nicely to the next question, Andy, thanks for that segway. So okay, so given you know, we've laboured the point on why it's such a great scheme and, you know, why people might opt out and perhaps the reasons why they might want to reconsider doing that if someone does make the decision. Okay. Right. On the balance of all of that, I still want to opt out. What alternatives does the Civil Service Pension scheme offer?

Andy So obviously, let's just cover the very, very basic one. Opting out means you will not have a pension. You don't accrue anything. You'll get a slightly higher monthly wage because you're not paying a contribution. It won't be like for like because then you're paying more tax and not getting tax relief. But the other alternative, which is a great offer from the Civil Service, in my opinion, is to go into a defined contribution scheme or what we call partnership, which is, as mentioned before, it's a private defined contribution scheme with Legal & General. And the great thing with that is you as a member don't have to make a contribution and your employer still will.

Rob Free pension.

Andy Free pension. Your employer will pay anywhere between eight and 14.75%. So if you didn't want to pay anything, you don't have to. But if you did decide to pay something, your employer will also match the contribution you make up to a further 3%. So if you pay 3, your employer will pay, If you're on the lower end of the scale, 8% plus another 3%. And this is going to test the matter now. So it'll be an 11% contribution going in for employer. So bearing in mind on the lowest scale from auto enrolment point of view, an employer only has to pay a 3% contribution if they have to. And that's only if a member pays 5%. So your employer's already making an 8% minimum contribution. Then on top of that, if your contributing as well, at 3%, they'll pay that additional 3% as well. But. Essentially you can get, I think you mentioned it, Rob. You can get something for nothing. If the main reason for you opting out is I can't afford to pay the contributions, then go into partnership instead.

Emily That's a really good point. And I've said this before and I will say it again, I think it's unusual for a scheme to offer both options. And I think that's a really powerful piece of advice Andy that, if you are thinking of opting out and ~~not of all~~ none of what we're talking about today is convincing you, at least consider partnership because it's a decent alternative.

Andy Definitely. I mean, there is one group of people who in my opinion, it is an opinion, who are, it can be more beneficial for them to be opting out of the scheme and that is generally very high earners who are at risk of certain tax issues, tax payments should I say, so things like annual allowance where their pension growth each year exceeds the annual allowance limits and they would be liable to additional tax charges and it would get to a certain point where it's not beneficial for them to be in the pension scheme. Then there's also the individuals who have been in service for a long time maybe, and have been high earners who breached what's called the lifetime allowance, which looks at the whole value of your pension over the lifetime.

Rob Yeah, just to clarify as well, lifetime allowance is the total amount of pension you're allowed to build up in your whole life.

Andy Before an additional tax charge.

Rob So it's not about…

Andy There's no limit. With the annual allowance, there is no limit on the amount of pension- your value can increase, but there is a limit on the amount of tax relief you can get from it.

Emily Right.

Andy With the lifetime allowance, again there isn't a limit on the amount of pension that you can save for, but there is a limit on the amount of tax relief your pension across the whole life stage can have, which can associate with tax relief. And that's where the two, annual allowance and lifetime allowance comes in to manage that amount of tax relief an individual gets.

Emily And how would a member know if they're in danger of reaching that limit or breaching that limit?

Andy So every single year, we issue what are called pension saving statements has to be out by, I want to say, the 6th of October. It's a statutory deadline. We as a scheme usually issue them around September time. We usually start distributing it in August through to the end of September with that bit of leeway just in case. So if an individual does breach, we have to notify. If you are worried, if you've got pensions elsewhere, this is for the annual allowance so if you're actively saving into something, then request one. One can be provided on request. Things that usually trigger it…we automatically send them out to individuals who are who earn over £100,000 but the people who could be at risk of breaching the annual allowance are individuals who get promoted maybe very, very quickly, jump one or two grades in quick succession. People who make a large one-off savings to their pension or what it can be as well is allowances that come in for the first year so people can breach the allowance in one year and then everything stables out. So going forward, they wouldn't breach. Again, lifetime allowance, it can impact anyone, but generally it is the higher earners in the scheme it would be impacted by it.

Rob So one more thing before we move on to the next question and that's if you do opt out completely, is that it? You're opted out forever?

Jane The employer does automatic enrolment every three years. So every three years, you will have to opt out again and that's a legal thing. They have to do it. It is to try and encourage people, I think, to be in the pension scheme.

Rob Yeah.

Emily That makes a lot of sense. So we've talked a lot there about what happens if you if you if you opt out of the scheme, but not necessarily, you know, change jobs or anything. But we do know that people do tend to change jobs every so often. You know, the average person, in fact, changes jobs around 12 times in their career at the moment. Jane, your team deals with people that are also leaving the Civil Service. So what happens when you leave? What happens to your pension when you leave the civil service?

Jane Yeah, it depends how long you've been in the scheme, basically. So if you been in the scheme less than a month, it's as though you've never been in the scheme. Your employer will refund your contributions with your last pay and it's as though you've never been in the scheme. If you've been in between one and three months, it does depend on whether or not you have accrued any benefits previously within the last five years. If you've been in between three months and two years and you don't have any previous service, so you've not been in the scheme previously - it does make a difference if you have, if you've been a member in the last five years. If you leave then, you get the option of either taking a refund of your contributions and it is just your contributions and you do have to pay tax on them, or you can transfer to another scheme. So when we send the paperwork out, that's what we'll give you on the paperwork. We'll tell you how much your refund will be and how much you transfer value to another scheme would be. And then it's entirely your choice what you want to do. If you have more than two years' service, or if you had it before and your less than two years is linked, then you'll get a preserved award, which is a pension award that's deferred until you decide to take it at the minimum scheme pension age. If you leave your pension there, it will keep growing every year. You know, it does get, sort of, inflation rises on it every year and it will keep growing so that when you actually come to take, it will be bigger than what it says on your paperwork when you leave.

Emily Okay, that makes sense.

Rob So when you said 2 to 3 months, if you've not had five years previous service. Does that mean you've not previously worked in the civil service and had a pension when you did that? Yes, within the last five years.

Jane Yes. So if you've not been in the scheme in the previous five years, then you get a refund of contributions. You don't get the option to transfer or anything. So if you've been in the scheme less than three months, you've got no linked service, you would just get a refund of your contributions and that would be paid via your employer.

Rob So when we talk about length service, we're talking about people who've previously worked for the Civil Service, have left and have rejoined and may have done that multiple times throughout their career. So linked service is taken into account when someone leaves, so we'll look back and see if they've ever worked for the Civil Service before?

Jane Not if they've ever. Under alpha now, it's within the last five years. So if you have been in alpha and your benefits are still in alpha in less than five years ago, your benefits will be linked. So it will be one award.

Emily Right. Okay. So that makes life a little bit easier for those people.

Rob So put it in terms that I can understand, if you leave the civil service and then you come back, you can link the pension that you've built up when you worked there for the first time to the service that you're building up now.

Jane Yes. So if you rejoin the scheme within five years, your pensions will be linked. So that deferred pension that you're holding from less than five years ago will join onto the pension you now are starting so it’ll be one pension If the break from the scheme is more than five years, you'll still have that deferred pension. That will stay there as a pension, but you will start another pension when you come in. So it'll be like two separate pensions with the Civil Service.

Rob Perfect. Okay. Jane, you mentioned transferring out to another pension provider. So can you just briefly talk us through how that would work?

Jane Yes. So if you have between three months and two years, you either get a refund or you can transfer to another scheme. Obviously, you transfer value is going to be higher than your refund. So if you don't desperately need your money back, then it's going to give you a pension later on if you transfer it to another scheme. If you've been in the scheme over two years and then you have a deferred pension, can opt to transfer that to another scheme. Sometimes it can be more beneficial to keep your pension where it is, especially if you are planning to rejoin the civil service, you know, some time. Or it could move better for you if you move it and combine it with any new pension pot. But we would always say take financial advice on it.

Rob So before we move on from that point, I just want to pick up on one thing that you said there, which was that your transfer value will be higher than your payout. Can you just explain why that is and what the difference is?

Jane Yeah. When you take a transfer to another scheme, it's not based on what you've paid. It's based on certain factors relating to your age and how long you have until you actually take your pension. So the pension age. So it's factors provided by the government actuaries department and it's calculated through that.

Rob So that effectively increases the value of just the pot that's sat there, effectively.

Jane Yes.

Rob Okay. So when you transfer out and you take the cash, you literally just get the cash that you've paid in?

Jane If you take your contributions, yeah.

Rob And then, but if you transfer, there's a calculation applied to that number, which makes it bigger.

Jane There is, yeah.

Rob Okay.

Andy Can I just add one thing about where you can transfer it out to? Being a public sector scheme and using public sector money, there's only certain places where you can transfer it to, for over two years. And that's only to other public sector schemes, or if you can find one, a private sector defined benefit scheme. Basically with taxpayer's money, you can't go to a normal defined contribution scheme where certain freedoms are allowed, where you can draw large lump sums out, things like that. It can only really be to other public sector schemes like NHS, teachers.

Rob So where can people find out what those rules are?

Andy The scheme website. civilservicepensionscheme.org.uk

Emily That makes sense actually because I was looking at my previous- so I've got three pension pots at the moment. One is it is an NHS defined benefit scheme and the other two are a defined contribution and I was trying to, kind of ,combine them so that I can keep track of them and it's basically practicing what I've been preaching in this job, and I didn't understand why when it told me I wasn't allowed to move my NHS pension anywhere else. That makes sense.

Andy Yeah. It's not just the Civil Service where that is, it's all public sector schemes. It's like I say, because it's essentially taxpayer's money which is being used, it can only go to certain things. Because the benefits are so generous, it's essentially not allowing those freedoms which were introduced within pensions, about being able to take large tax-free lump sums essentially from it. So it's only being able to go to certain places, which is, like I say, the limitations are part of the public sector schemes.

Emily Okay.

Rob Now you know that, you probably don't want to move that NHS pension.

Emily I will leave that where it is. Thank you very much. Um okay, well that that's all been really useful. This is probably a good question for both of you, really, even after listening to this podcast, if someone, you know, is leaving the Civil Service and is kind of facing the circumstances we've talked about, what advice would you give them in terms of their pension?

Andy If you are leaving the civil service, as in you resigning and purely leaving, I would always say keep track of where your pension is and where your pension's at so you can fully understand what your retirement picture will be in ten, 20, 30 years' time. From a Civil Service point of view, keep note of your employee number. What will happen when you resign and you have a deferred award, a deferred awards statement will be sent to you. Keep hold of that because that will be what your pension value is at the date that you've resigned, for want of a better phrase. So keep track of that. And just as you're getting nearer to retirement, you know, start looking at what your value is, requesting a current value statement so you can see what your pension value was and what it is now. And yeah, just make sure you keep track of everything if you do decide to leave. If you are leaving or thinking of leaving, look at the bigger picture. Look at the whole benefits. Don't just- one piece of advice I would always give people to friends, family, colleagues is, look at the whole benefits package. Don't solely concentrate on salary if you are looking to move, look at everything that is being provided. So know we're here talking about pensions, taking that into account and all that good stuff that is offered from one in the civil service. And if you still want to go, that's fine.

Rob I won't hold it against you.

Jane I'd echo that Andy, you know if you look at the whole package what you're getting in your pension, this is a fantastic pension scheme. And the extra that you are getting is unbelievable. You don't get it everywhere. You know, there's not many places you do get it and you'll be very grateful you stayed there and kept your money there when you are taking your retirement.

Rob Wow, well, what an information download this has been. Thank you, Andy. Thank you, Jane. And thanks, yeah, thanks for joining us today. It's been a really, really interesting conversation. Thank you.

Andy Thank you.

Emily If you want to find out more about anything that we talked about today or to suggest something that you'd like to hear us discuss on this podcast, in the future, you can head to civilservicepensionscheme.org.uk/podcast.

Rob And if you've enjoyed today's episode, make sure to follow or subscribe so you never miss an episode. You can also leave us a review wherever you get your podcasts.

Emily Thanks again for listening.