Balancing finances with pension savings

Podcast transcript

00:00:00 Richard

So hello and welcome to our USS podcast. Thanks for joining us today. I'm Richard Edwards and I'm joined by four USS members to hear what they think about financial and retirement planning and to find out what they're doing to hit their lifestyle and retirement goals. So welcome, Sophie. Neal, Corrine and James, thanks for being here.

Hopefully your thoughts and insights will help our members to do their thinking around some of the issues that play into setting up our future selves for the lives we want in retirement and welcome also to Pete Wallwork, our Head of Product Development and for today, our resident technical expert. Hi Pete.

00:00:38 Pete

Hi, Richard.

00:00:39 Richard

Yeah. And let's kick off Corrine. Not to put you on the spot, but you're kind of in the middle if you like of our participants today. So how much of a priority is building up your USS pension right now, or are there more pressing things like kind of higher up your To Do List?

00:00:58 Corrine

Sure. Thank you, Richard. So I'm in my late 40s at the moment and we're trying to balance some pensions with things like paying off our mortgage, which we have actually just managed to do.

And also with work on house as well and we've we have we've been in our house for 14 years now and we've got work that we still need to get done. So I suppose we're trying to strike the balance between saving for the future but also living in the now.

00:01:24 Richard

So that's really encouraging for me to hear as well that you've been there 14 years and are still doing the house because, I've been here for years and it's still a building site, so very encouraging.

James, speaking of kids, you have three teenagers. So how does family sort of play into your longer term saving priorities?

00:01:48 James

Yeah, obviously if I didn't have those three kids, I'd probably be retiring immediately because I could probably just about afford it. Now I'm just turned 60 and it's so obviously I'm gonna keep working and a large reason for that is to help the family finances.

So we're juggling loads of stuff like most parents and yeah, I'd love to retire, but I can't afford it quite yet. But I'm very happy with the fact that we've got a DC pension pot as well as a DB pension pot in this pension.

Well, the DC pot, I have a lot of control over, so I can funnel money into that and invest it within the funds that are available. And I've been doing that quite heavily for the last couple of years and that's been really boosted up my flexibility with the pension.

So yeah, I've also got to bridge the gap between when I retire and when I get my state pension at 66, so that's another issue. So since I hit 60. I've majorly researched pensions because it's time to really understand it.

00:03:04 Richard

Thanks James. So it feels like it is a real priority for you right now sort of thinking about the future it is maybe closer for you than the rest of you guys on this chat. Was it always the case, I wonder was pensions always one of your priorities or as it sort of transitioned to this?

00:03:26 James

Yeah. No, it's made a step change recently, literally around the time I hit my 60th birthday, I probably should have been doing it years ago. But basically, like other people have already said, I've always been paying off for mortgage and so on actually paid off my mortgage about 10 years ago on my previous house, but then we moved to a slightly nicer house, about 2 1/2 years ago.

And took out a very small mortgage. Luckily fixed at a low rate below 2%.

And so I'll need to pay that off as part of the overall financial planning, but that can be done quite easily just from the DC pension pot or from some other some other way. However, whatever your salary is, it's a good deal, but it's a fantastic deal if you're a higher rate tax payer which I am only just recently have become over the last year or two.

00:04:19 Richard

Absolutely. Pete, I'm going to bring you in in just a moment to talk us through DB and DC. But before I do, uh, Neal and Sophie, you're both younger members of the scheme. So I wondered how or whether your sort of saving priorities differ from those of James and Corrine. Sophie, where are you at the moment in terms of saving priorities for the short, medium and longer term.

00:04:44 Sophie

Well, similar to the others, I'm my priority is to contribute towards my mortgage. I think I'd rather try and make additional payments there, then start investing in my pension. So that's kind of the long term goal is to pay that off as my priority, but I'm trying to start dipping a toe into pension and start getting my head around them thinking about the defined contribution, which I'm not automatically in because of my salaries below that but starting to think about it because it's hopefully gonna be on the horizon, but I also feel that I do have maybe 30 years and I feel anything could change in that time and who knows what the situation will be like so yeah.

00:05:32 Richard

Absolutely. I mean as James said, there's a point at which it sort of gets real, isn't there? And yeah, so that, that sort of tipping point that James mentioned, Neal, how about you? What do your immediate priorities look like and when or are indeed you now sort of dipping your toe into the sort of pension savings journey.

00:05:53 Neal

Yeah, that's a good question. I guess I'm a bit unoriginal and it's quite similar for me. So bought house over lockdown, so don't now have to say as much for that, but obviously have to pay into the mortgage. I guess I'm slightly more into pensions than other people my age. I think usually are because I briefly left academia and was in two short term employments with companies that had very limited and restrictive pension schemes and I had this kind of panic at the end, what's this done to my like retirement goals? Watched a bunch of like apocalyptic style YouTube videos that like I know you have to like, put all of your salary into your pension now or you'll starve. And so I probably went a bit too far the other way. So I'm kind of trying to keep a balance between like having money to do things but also not ending up destitute because I didn't do anything with my pension.

00:06:39 Richard

Absolutely. Yeah, it's. I mean it's it's a really good point. You raised actually, Neal, you know a lot of what we're reading in, in the media and online in terms of your put X amount of your salary based on age away, etcetera, etcetera, it relates largely to DC schemes because the bulk of workplace pensions are DC schemes indeed. USS, obviously a hybrid scheme gives you some that that guaranteed elements, which is quite rare these days, so Pete just in terms of a quick pensions 101 in terms of DBDC and a hybrid scheme that USS is and can you set that out for us.

00:07:18 Pete

Yeah, no problem, Richard. So in a nutshell and I will give a very, very basic overview. In a defined benefit pension scheme, which in in USS is the Retirement Income Builder part of the pension scheme, you build up a guaranteed benefit and so your contributions go towards funding that your employers contributions go towards funding that and when you reach retirement we say you can have a pension and as James referred to earlier a tax free cash sum.

But that income that you get from your pension is guaranteed and it will go up broadly in line with the cost of living each year. So it sort of keeps pace with inflation. That's the idea of it. So you know how much you're going to get in in a way, again, coming back to what James said, it's similar to the state pension. You know, you're gonna get something and you're gonna get paid. And that'll last until you die. And now with the defined contribution pension scheme, which is the Investment Builder part of USS, that's part of the pension scheme that if you earn over the salary threshold which is around about the £70,000 mark. So it's quite a high salary threshold to be to be paying contributions into it, or if you pay any kind of voluntary contributions, they go into the Investment Builder part of the pension scheme, but also if you transfer some benefits in, they would go into the Investment Builder part of the pension scheme now. They get invested in in certain investment funds which you can choose if you want, but you don't have to. There are default investments and they go up and down with the stock market. Generally the idea is that the value of your fund that you build up increases and when you get to the point where you want to take those funds you don't necessarily get a guaranteed value for what you've built up. You can use it in a number of ways, so there's a bit of flexibility. You can do something called flexi access drawdown, which is you would transfer it to an an insurance company and then you can take money out of that pensions pot as you want. And some of that is tax free. You can buy the annuity with it and that's similar to sort of an income you would get from a pension. But again you do that with an insurance company or you could leave it invested or as one of the benefits of USS, one of the quirks in a way is because we're a hybrid pension scheme, you can actually use it to fund your overall tax free lump sum when you reach retirement if you take it at the same time as your Retirement Income Builder, your DB benefits. So quite a lot of flexibility with the DC pot. If you have one and if you start to pay additional contributions or earn above that threshold. But two quite distinct sides to the scheme.

00:10:01 Richard

Fantastic. Thanks, Pete, and thanks everyone. That's the end of our first podcast, but don't miss out on our next one because we're going to be talking about when you want to retire and how much you might need to fund it.

It if you want to do about homework between podcasts, check out uss.co.uk For more information about your pension and to dig a bit deeper into some of the things Pete was discussing, thanks for listening.