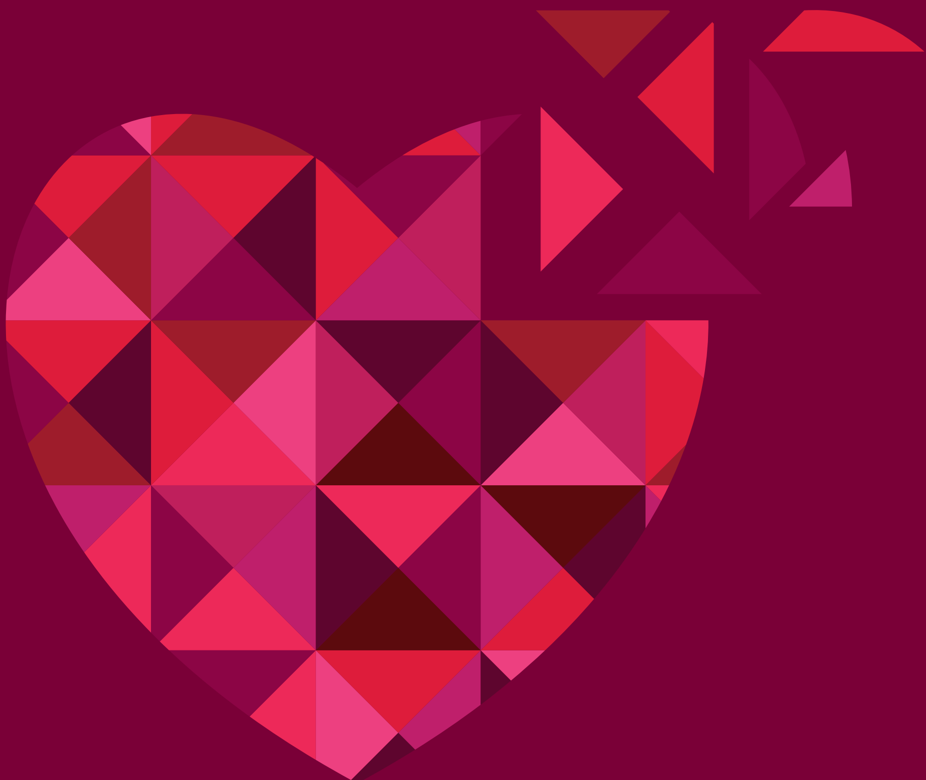
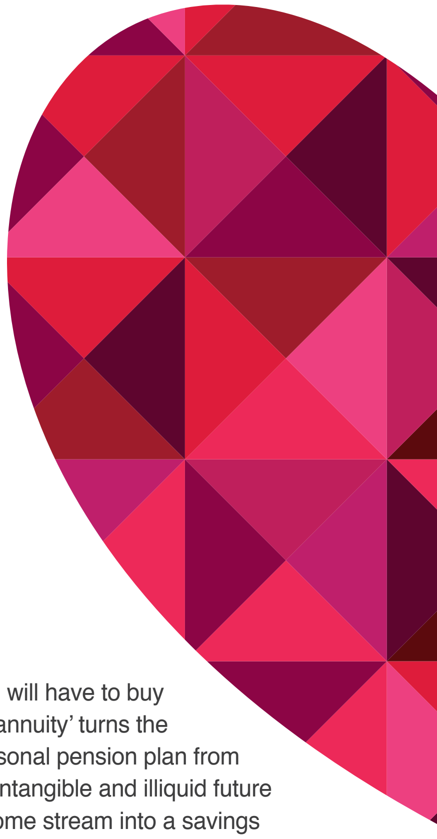
FINANCIAL GUIDE

A GUIDE TO

PENSIONS AND DIVORCE

HOW TO PROTECT YOUR FINANCIAL POSITION DURING A DIVORCE





A GUIDE TO PENSIONS & DIVORCE

WHY YOUR MARITAL STATUS DOESN'T NEED TO AFFECT YOUR RETIREMENT PLANNING

The number of people divorcing in later life is increasing, and it's not just putting couples under emotional strain but it's also potentially harming their retirement plans.

A FAIR RESOLUTION

Achieving a fair resolution of all the financial issues surrounding divorce or the dissolution of a registered civil partnership can be highly stressful. Alongside wanting to resolve these effectively and affordably, you may also be worrying about how you will achieve the fairest division of your family assets, how to deal with any requirements for continuing support or perhaps even how you will manage to make ends meet in the future.

UK couples are spending more than £44,000 on average when they divorce or separate, totalling £5.7 billion per year[1] across the nation. A new study from Aviva reveals the hidden cost of divorce as £21,979 per person or £43,958 per couple. The figures show a 57% increase since the study was last carried out in 2006 when the cost of divorce was around £28,000.

SECOND LARGEST ASSET

After a home, a pension fund can be the second largest asset owned by a family. A pension plan is usually valued in terms of its transfer value at the time of any divorce proceedings. It is valued in this way either to be shared or to offset any assets awarded to either partner. It is not always prudent to assume all assets will be divided in half, and in many cases that does not occur.

A partner who has sacrificed their income in the course of a partnership (for example, in order to care for children) could expect to benefit from any pension earned by their partner while the relationship lasts. In the case of divorce, however, this would no longer be the case, and hence the fate of any pension accrued will have to be decided either between the partners or via legal proceedings.

BUDGET RULE CHANGES

The 2014 Budget changed the financial planning landscape dramatically with the single biggest shake-up to pensions in our lifetimes. The announcement that 'no one will have to buy an annuity' turns the personal pension plan from an intangible and illiquid future income stream into a savings account with unrestricted access.

For people negotiating their divorce now, there needs to be an immediate re-evaluation of their pension's worth. In England, Wales and Northern Ireland, a court has to take into account any pensions and pension rights that you or your spouse or registered civil partner have when you split up. In Scotland, any increase in the value of your pension(s) between the date you married or became civil partners and the date of separation will be taken into account.

PENSION VALUATION

In order to be able to split pensions fairly, the first step is to find out what they're worth.

Pensions include:

- schemes you have through work
- personal pension schemes
- additional State Pension (part of

the State Pension scheme that's not the basic State Pension)

TYPE OF SCHEME

The person who has the pension or is a member of the workplace pension scheme has to be the one to ask for a pension valuation. How a pension is valued will depend on the type of scheme(s) you're in.

In Scotland, the valuation used for determining the value of the pension rights is the Cash Equivalent Transfer Value (CETV). This is the value which must be used regardless of the type of pension.

TRANSFER VALUE

Whether you have a workplace 'defined contribution' pension where you pay into a pension pot (rather than the amount you retire on being based on your salary) or you have a personal pension, you should check your latest annual statement. This will tell you how much your pension is worth and its 'transfer value', which is the amount you would receive if you moved your pension elsewhere. This is the figure that's used for a valuation, and it may be less than the fund value because it will include any charges or penalties for transferring.

If you have a final salary or other salary-related pension scheme, obtaining a proper valuation can be much more complicated because you don't pay into a pension fund.

You build up an entitlement to a pension based on:

- how long you have paid into it for
- your salary
- how much of your salary you build up for every year you're a member (known as the 'accrual rate')

STATE PENSION

The basic State Pension cannot be split at divorce or registered civil partnership dissolution under current rules. However, you may be entitled to claim a basic State Pension using your ex-partner's National Insurance record (for the years you were together) without it affecting the basic State Pension they are entitled to. If you re-marry or enter another registered civil partnership before you reach State Pension age, you will lose this pension entitlement.

Three ways pensions can be divided during divorce or a registered civil partnership dissolution:

- **Pension sharing** – you're awarded a percentage share of any one (or more) of your ex-partner's pensions. This share is either transferred into a pension in your own name (which could be one that you already have or a new one) or you're able to join your ex-partner's pension scheme
- **Pensions attachment (or 'earmarking')** – you receive an agreed amount of your ex-partner's net pension income or lump sum (or both) when it starts being paid to them. This means you cannot receive pension payments before your ex-partner has started taking their pension. If your ex-partner is much younger than you – or if they retire much later than you – you may have to wait several years before you receive your share of the pension. In Scotland, this is called a 'pensions lump sum order'
- **Pensions offsetting** – the value of any pensions is offset against other assets. For example, you may have a greater share of the family home in return for your ex-partner keeping his or her pension income

COMPLICATED RULES

In England, Wales and Northern Ireland, only a court can make a pensions sharing or attachment order, but in Scotland a Pensions Sharing Agreement can be set up without going to court. However, it will only take effect on divorce or dissolution, which only a court can grant. Because of the complicated rules about the way the agreement has to be written and because it has to be registered with the pension trustees (those who run the pension scheme) within a strict time limit, we recommend that you take the advice from a solicitor who specialises in pensions before drawing up an agreement.

Pensions can be split after you and/or your ex-partner have retired. However, the rules are slightly different. For a start, it isn't possible for you to take a lump sum from your ex-partner's pension if he or she is already receiving an income from it. This applies even if your ex-partner took a lump sum.

FOLLOWING A SPLIT

As well as considering the core costs associated with a break-up, the Aviva study also looked at added extras that many people buy following a split. The research suggests that four out of ten newly divorced or separated people splash out on items to treat themselves.

For example, the study found one in eight people (13%) took a holiday to celebrate their newly single status at a typical cost of £1,925, while the same (13%) treated themselves to new technology, shelling out an average of £1,292 on gadgets and gizmos.

Four out of ten respondents said they were financially worse off following their divorce or separation, and more than half of couples (53%) took longer than six months to settle financial matters. The typical time to settle was 11.5 months, but one in ten couples (11%) said the process took more than two years.

With this in mind, it's perhaps no surprise that 36% of people surveyed said they'd prefer to stay single in the future!

FINANCIAL IMPACT

The financial impact of divorce or separation is also clear from people's behaviours when a relationship breaks down. Women are more likely than men to make lifestyle changes to supplement their income following a divorce. One in eight women (13%) said they worked longer hours or took a second job following a break-up, while one in ten who didn't work before the split got a job. Women were also more likely to use short-term fixes to make ends meet after a separation: 27% of newly single women dipped into savings compared to 16% of men, while 23% relied on credit cards, compared to 14% of men.

Two thirds of couples who are married or co-habiting have some shared finances, so these arrangements can take some time to unravel if a relationship unfortunately breaks down. Beginning again following a divorce can be a daunting time, not to mention a busy one, but it's crucial that newly single people review money matters when their circumstances change.

Facing the facts:

- Interviewees were typically with their partner for 10 years and eight months before divorcing, although one in ten (9%) were together for less than two years
- The average divorce age in the study was 38 years and two months
- Two thirds (66%) of divorcing couples had joint finances: four in ten of these shared all finances, while the remaining six in ten had some shared and some separate
- One in five women took out protection insurance (such as life cover) after divorcing, compared to one in ten men, but a quarter of respondents said they didn't have life cover following the split (25%)
- One in eight divorced women (12%) said they have no pension/savings plans as they were relying on their partner to fund their retirement
- One in ten respondents (10%) said they would be significantly worse off in their retirement as a result of their break-up
- Four out of ten women (42%) said they were worse off financially as a result of their divorce compared to 33% of men. Four out of ten men (39%) said they were actually better off, compared to 29% of women
- More than a third (36%) of respondents said they would prefer to remain single following their break-up, but 25% would marry (again)

REVIEWING MONEY MATTERS

Beginning again following a divorce or separation can be a daunting and emotional time, not to mention a busy one, but it's crucial that newly single people review money matters when their circumstances change. If someone becomes the sole income earner for their family unit, it's important they think about what they might do if they were unable to work, for example, through illness or injury. Protection insurance – such as life insurance, critical illness cover or income protection – can provide that all-important peace of mind, so people can start on a firm footing as a new chapter begins.

EMOTIONAL ROLLERCOASTER

The resolution of finances can often be an emotional rollercoaster and will be a different experience for each person. Everyone is understandably concerned for their own financial security and that of their family, so it is not unusual for the financial settlement to end up being the key focus of attention.

CONSIDERATION OF YOUR FINANCIAL MATTERS

Over the last 10 years, the law has changed regarding divorce and pensions. The courts' consideration of financial matters within the divorce agreement must now include pension scheme provision. Furthermore, measures have been introduced in an attempt to provide a greater flexibility and choice for both the divorcing couple and the courts themselves. If you would like to discuss your requirements or obtain further information, please contact us today.

Source:

[1] Latest figures from the Office of National Statistics show that 118,140 marriages and 794 registered civil partnerships ended in England and Wales in 2012, while 9,700 marriages and 67 registered civil partnerships ended in Scotland in 2012/13 according to latest figures for Scottish civil law cases. This equates to 128,701 divorces/dissolutions annually, relating to 257,402 people.

Average cost of divorce is based on total costs according the study, multiplied by the proportion of people who spent on each item, divided by the number of divorces/dissolutions across the UK annually.

Figures taken from a study of 616 adults aged 18+ who had been married or co-habited with a partner within the last 10 years, carried out by ICM research 9–11 July 2014 across the UK.

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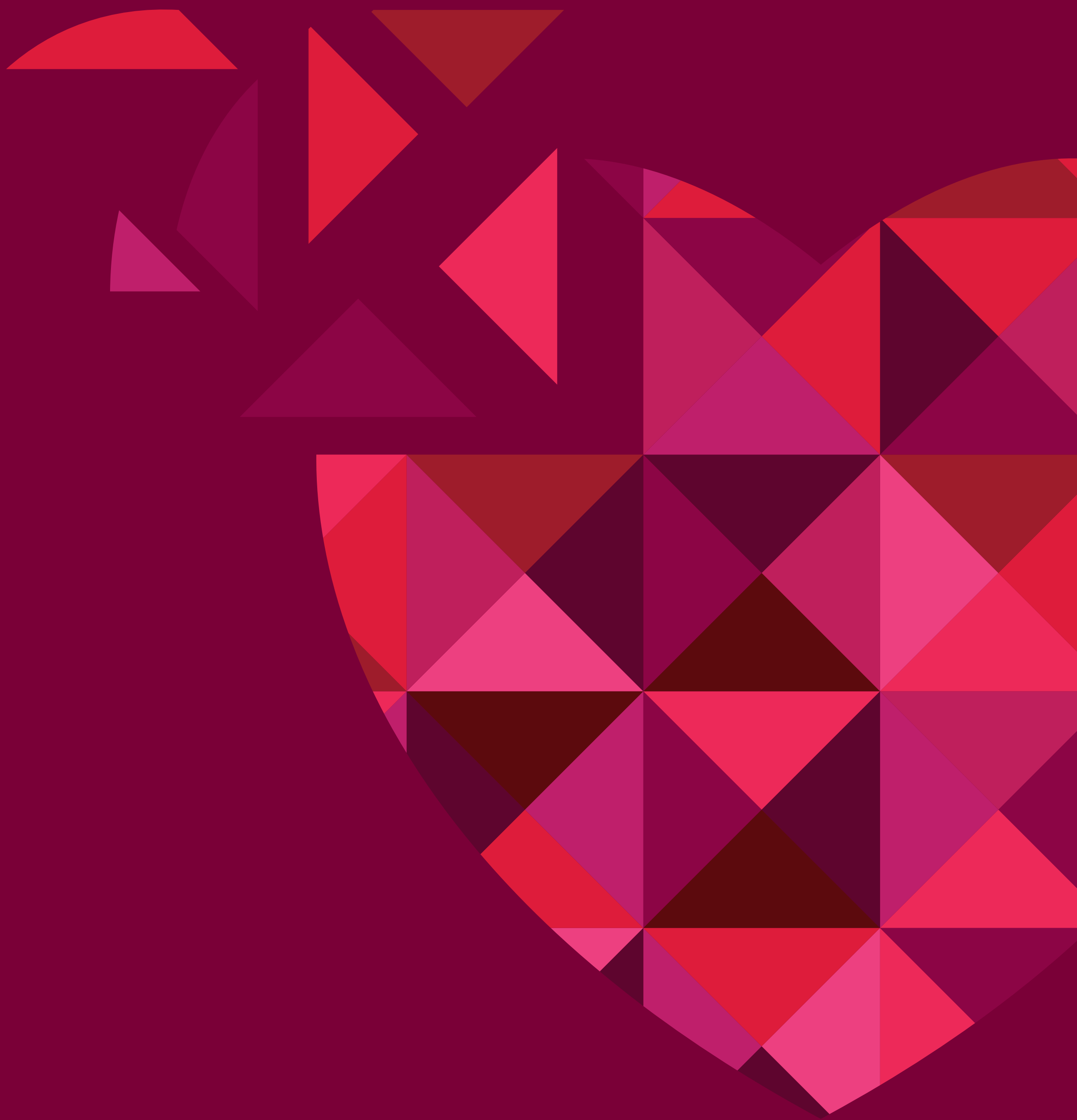

HELPING YOU THROUGH A DIFFICULT TIME

Your pension can be the next biggest asset in a divorce or a registered civil partnership dissolution after the family home, so it is important that it's not overlooked. It can be split in various ways and it's worth understanding the different options. To discuss how we could help you through this difficult time, please contact us – we look forward to hearing from you.

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