

## **PENSION SHARING SOLUTIONS**

### **Introduction**

Pension Sharing Solutions is a service provided by Curtis Banks PLC, an established firm of Actuaries and Pension Consultants, to assist solicitors and their clients in dividing pension rights on divorce.

### **Pension Sharing on Divorce**

Pension rights can be a very valuable part of the assets in a divorce, and specialist advice is often needed to make sure that pensions are dealt with in the most effective way. For more complex cases, this has become a sophisticated process, involving solicitors and actuaries.

Pensions in divorce cases are now typically dealt with in 3 ways. These are explained in more detail in the options on page 3 of these notes and can be summarised as:

- Pension Sharing Order – this is the most common option, with the pension rights being divided between the 2 parties, e.g. Spouse A might be given a share of Spouse B's pension and transfer this to a new pension plan of their own.
- Offsetting – in this situation one party will retain their pension rights and the other will get other assets by way of compensation, e.g. "you get the house, I get the pension"
- Attachment Orders – less common, this is where the pension rights do not get split but the spouse keeping the pension will pay a share to the other spouse when it comes into payment, e.g. Spouse A pays 50% of their pension to Spouse B when it comes into payment.

### **The Need for Actuarial Advice**

At first sight pension sharing might seem simple – e.g. Spouse A has a pension fund of £100,000, Spouse B gets £50,000 of this and moves it into their own pension fund.

However, there are other factors to take into account, such as:

- Spouse A might be age 55 and wanting to take a pension at age 65. Spouse B might be 52 and wanting to take their pension at 60. How do you split the pension money so that they both end up with an equal pension? Actuarial calculations are needed for this.
- Pension schemes will quote a cash equivalent transfer value (CETV) which is then used as the basis of a Pension Sharing Order. This CETV may not be the true value of the benefits in the pension scheme, for a variety of reasons, and an actuary can check whether the figure being quoted is reasonable.
- Some pension schemes are complex, with non-standard retirement ages and other benefits – the Armed Forces or Police pension schemes are examples. Expert advice is needed before splitting the benefits in these schemes.
- Expert advice can help when deciding on the best way of dealing with pension rights, i.e. which of the 3 options above is best.

- In recent years there has been an increasing demand for comprehensive actuarial reports, to assist with the above issues.

## **Meeting the Demand**

Whilst our Managing Director Rupert Curtis has carried out expert witness actuarial work for over 30 years, including valuation of pension rights on divorce, we have now become more heavily involved in this work as a result of demand from solicitors. There is a common theme in the enquiries coming to us:

- The need for reports to be produced within a short space of time, to avoid delays in the divorce process. The reports will be prepared and delivered within 10 working days of receiving all the relevant information.
- Reports written clearly in plain English, which can be readily understood by all the parties involved in a divorce.
- Clear competitive pricing.

Our service has been tailored to meet all of these objectives.

## **Actuarial Reports**

A summary of the issues that can be addressed in a report prepared by Curtis Banks PLC is as follows:

- The level of pension sharing required in order to generate an equal capital value of pension rights.
- The level of pension sharing required in order to generate an equal level of retirement income.
- The independent valuation of pension rights for offsetting purposes.
- Information on the Pension Rights involved in a case.
- The options available for the clients.

The report will be prepared by Rupert Curtis, a Fellow of the Institute of Actuaries, and will contain everything that is needed of an expert witness report. Rupert has over 30 years of experience in all aspects of pensions work, including the valuation of pension rights on divorce and giving evidence to the Court.

## **How it works in practice**

We will be instructed by the solicitors acting for the parties in a divorce. We will receive instructions from them detailing the scope of our work and the objectives. We will obtain full information on the various pension arrangements, carry out our actuarial assessment and prepare our report. An indication of our fees will be quoted at the outset on each case.

We will assist the solicitors in each part of the process and help explain the results of our report. Independent financial advisers are also often involved in the process, providing assistance to the various parties.

## Options for dealing with pensions

### 1. Pension Sharing Order

The Welfare Reform and Pensions Act 1999 brought in the ability for pension rights to be shared in the event of a divorce. Known as a Pension Sharing Order, when this is implemented a Pension Credit will be awarded to the relevant spouse so that (for example) an equal level of income can be provided at the relevant retirement dates.

Different pension schemes have different rules on whether a Pension Credit can or cannot, or indeed must or must not remain in the original pension scheme. If it is possible for the Pension Credit to be transferred to another pension arrangement the relevant spouse will need to seek Financial Advice to decide which of the available pension products is most appropriate.

#### Case Study

Geoff and Julie are in the process of getting divorced. Geoff is a member of a Final Salary Pension Scheme which promises to pay a pension of £45,000 p.a. at age 60 and is also a member of a Personal Pension Plan worth £40,000. Julie's pension rights consist of a Personal Pension Plan worth £15,000.

Following discussions with their respective solicitors, it is decided that the Geoff and Julie's pension rights should be shared so that they will receive an equal level of retirement income at their respective 60<sup>th</sup> birthdays. The solicitor's commission an Expert Witness Report from Curtis Banks PLC for their recommendations on how the pension rights should be shared accordingly.

The actuarial report recommends that a Pension Sharing Order of 57% of Geoff's Final Salary Pension Scheme should be implemented. Based on the actuarial assumptions in the report, this will provide the following incomes at Geoff and Julie's respective 60<sup>th</sup> birthdays:

	<u>Geoff</u>	<u>Julie</u>
Geoff's Personal Pension Plan	£2,000 p.a.	Nil
Julie's Personal Pension Plan	Nil	£600 p.a.
Final Salary Pension Scheme	<u>£19,200 p.a.</u>	<u>£20,600 p.a.</u>
	£21,200 p.a.	£21,200 p.a.

The Pension Sharing Order as recommended in the actuarial report is implemented. Julie's new pension rights in the Final Salary Pension Scheme amounts to £513,000 and this needs to be transferred to a suitable pension arrangement in Julie's name. Julie contacts her financial advisor and it is recommended that the Fund Reserve is transferred to a Personal Pension Plan.

### 2. Offsetting

Offsetting is the term used to describe a settlement where one spouse retains the pension assets and the other spouse retains other matrimonial assets by way of compensation.

#### Case Study

Charles and Sarah are in the process of getting divorced. Their marital home is worth £500,000 and Charles is a member of a Final Salary Pension Scheme which promises to pay a pension of £20,000 p.a. on retirement. Sarah has no pension rights.

The administrator of the Final Salary Scheme provides a Cash Equivalent Transfer Value of Charles' pension rights of £400,000.

Following discussions with their clients, the solicitor's commission an Expert Witness Report from Curtis Banks PLC to check whether the Cash Equivalent Transfer Value provided is a realistic capital value of the pension rights that will be provided.

The actuarial report illustrates that a more realistic capital value of Charles' pension rights is £500,000. Following the report it is decided that Charles will keep the full value of the pension rights in the final Salary Pension Scheme with Sarah being given ownership of the marital home.

### **3. Attachment Orders**

Under an Attachment Order both parties retain rights in a Pension Scheme, however pensions will be paid on a split defined by the Attachment Order and not by the original terms of the Scheme.

#### **Case Study**

Andrew and Fiona are in the process of getting divorced. Andrew is a member of a Pension Scheme which will provide a pension of £20,000 p.a. on retirement at age 60. Fiona has no pension rights.

An Attachment Order is put in place for 50% of the pension to be paid to Fiona.

On Andrew's 60<sup>th</sup> birthday the pension payments are divided so that both Andrew and Fiona receive a pension of £10,000 p.a. each.

A disadvantage of an Attachment Order is that it will cease in the event of a change of circumstances (for example in the event of either Andrew or Fiona's death or in the event of Fiona's remarriage).

#### **Our Goal**

Pensions and divorce can both be complex subjects, and our goal is to enable all those involved in the process to have access to prompt advice to help them understand all the issues, to assist the divorce process and to make them feel comfortable about the way in which a potentially large part of the matrimonial assets is being dealt with.

To learn more about this service, or to have Curtis Banks PLC prepare an expert witness report then please contact us.

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