

Why divorce can be bad for your retirement

When it comes to divorce, pensions have been part of the assets up for grabs for many years, but women in particular do not tend to ask for a share of their ex's pension during proceedings. Natalie Tuck looks at the options of pension sharing, and why, regardless of the outcome, divorce is most-commonly never good for your pension

When it comes to divorce, everything is up for grabs, from the most obvious items such as property, cars, joint savings, to things such as furniture, art and even the family pet.

However, a recent report from Scottish Widows, *Women and Retirement*, found that seven in 10 couples don't consider pensions during divorce proceedings, leaving women short-changed by £5 billion every year.

It appears that divorced women take a bigger hit than their ex-partners, as the report claims that even if pensions are discussed in divorce settlements, 16 per cent of women lost any access to a pension pot when they split, and 10 per cent were left relying completely on the state pension.

The root of this problem seems to be the lack of understanding around the areas of pensions and divorce, especially amongst women. Scottish Widows found that almost half of women (48 per cent) have no idea what happens to pensions when a couple gets divorced. A fifth (22 per cent) presume each partner keeps their own pension and 15 per cent believe they are split 50-50, no matter what the circumstances.

However, there are a number of ways in which pensions can be dealt with, says Ramsdens Solicitors head of family

law Helen Thewlis. The first option is offsetting, which means that the pension benefits are offset against the total value of the matrimonial assets. Thewlis says this is often the simplest way to deal with pensions, as it allows the pension holder to retain their full value of their pension fund.

"Secondly, earmarking, which requires the pension holder to make a promise to the Court to pay all or part of their pension fund to their former partner when they retire. Finally, pension sharing, which is an option regularly preferred by parties as it allows the financial settlement to proceed on a 'clean break' basis. Pension sharing involves the non-pension holder receiving a percentage of the pension holders fund so that they can reinvest this into their own pension plan of their own. We also need to be mindful of the new rules that allow pensions to be drawn down earlier than the normal retirement age."

Despite these options, Mills & Reeve head of family law Nigel Shepherd says it is clear that all too often in a divorce pensions are still not being taken into account properly or at all.

"The problem has been made very much worse by the fact that so few people are now entitled to legal aid and are having to negotiate the minefield of financial issues on divorce without even

basic legal advice. This is storing up real problems down the line, in particular for women. While some pensions are relatively straightforward, others (for example public-sector schemes) are complex."

However, the tides may be turning, as law firm Collyer Bristow found a 43 per cent increase in divorcing couples seeking to split their pension pots in the last year, with the number of pension sharing orders increasing from 8,027 in 2015/16 to 11,503 in 2016/17. The law firm attributes this to rising value of pension assets, such as equities and property.

This may be good news but divorce, for anyone, is not a positive event for your retirement prospects. Research from Prudential reveals that divorcees planning to retire this year expect annual retirement incomes of up to 16 per cent lower than those who have never divorced.

In addition, those who have been divorced are also more likely to have retirement incomes below the annual minimum income standard for single pensioners set by the Joseph Rowntree Foundation (JRF). Around one in five who have been divorced (21 per cent) expect to have incomes lower than the JRF's benchmark of £186.76 a week, or £9,712 a year, compared with 13 per cent of those who have never been divorced.

Prudential pensions specialist Clare Moffat said the financial impact of divorce can be "devastating", both in the short and longer term. "Deciding on living costs and childcare at the point of divorce is difficult enough, but a pension fund is likely to be one of the most complicated assets a couple will have to split in the event of a divorce."

Written by Natalie Tuck