



#### Summary

- Growing numbers of people are getting divorced, including in later life. Situations such as co-habitation, lone households and multiple families in one house are also increasing.
- These complex family situations can have an impact on pension saving, for instance the cost of divorce may affect the ability to save for retirement, or supporting adult children may impact pension saving.
- Savers with complex family set-ups need to ensure that their money flows into the right hands by keeping nomination forms up to date.
- The pensions industry, whilst broadly flexible enough to cater to complex situations, needs to highlight that this flexibility is available to savers to help them utilise products in the best way.

# Complex families, flexible retirement savings

► **Laura Blows explores how complex family structures can affect pension saving and the ways in which the industry can help these savers with their retirement provision**

When considering how the modern world is complex, technological innovations may spring to mind – especially for those who never managed to master setting their VCR to record, never mind navigate apps and augmented reality selfies. ‘Family’ doesn’t quickly pop up when thinking about modern changes, with it more generally

considered a timeless concept. However, it’s not immune to the more complex times in which we live.

For instance, Canada Life’s November 2020 research, *Complex Families, Complex Finances*, states that those with complex family situations affecting their retirement finances currently account for a third of the market, but are expected to be the largest group in the retirement

market by 2035.

Canada Life technical director, Andrew Tully, adds that those in a complex family situation have grown from a quarter a decade ago to a third now, “so it’s gone up reasonably significantly in that time period”.

### Family structures

But explaining just what a complex family is, is complex in itself. There are no set criteria for what falls into this category, but a broad definition could be anything that deviates from the traditional, only-once married, with children and grandparents picture-perfect families seen in saccharine adverts.

So, one ‘complex’ societal trend that clearly breaks away from that above ‘norm’ is that of divorce.

According to the Office for National Statistics (ONS), there were 107,599 opposite-sex divorces in England and Wales in 2019, an increase of 18.4 per cent from 90,871 in 2018 (although some of this increase can be due to a 2017 divorce petition processing backlog), and the highest number recorded since 2014. It is also the largest annual percentage increase in the number of divorces since 1972.

Amongst same-sex couples in 2019, there were 822 divorces, nearly double that of 2018, when there were 428 same-sex divorces.

When thinking of divorce, we tend to think of middle-aged people. However, in 2017, the ONS found that older people in England and Wales are getting married and divorced in greater numbers – so-called ‘silver splicers’ and ‘silver separators’.

The number of brides and grooms aged 65 and over went up by 46 per cent in a decade, from 7,468 in 2004 to 10,937 in 2014. This is against the backdrop of an ageing population, which saw the number of people aged 65 and over increase by 20 per cent in the same period. Ninety-two per cent of those aged 65 and over getting married in 2014 were

divorcees, widows or widowers, with only 8 per cent getting married for the first time.

While there was a 28 per cent fall in the number of divorces between 2005 and 2015 generally, the number of men divorcing aged 65 and over went up by 23 per cent and the number of women of the same age divorcing increased by 38 per cent.

A common enough result of all this hitching and ditching are families with stepchildren and children from multiple partners.

“There are no longer three distinct generations,” Tully says. “There may be multiple different generations, such as older children and younger children from different marriages, so defining generations become more complicated.”

In 2017, the ONS found that the number of women giving birth aged over 40 had doubled since 1990, which is also blurring generational boundaries. More women over 40 give birth each year than those under 20, Canada Life’s research finds, “meaning that there will be a growing number of complex families who are supporting their children much later in life”.

“I think about 20 per cent of people in their 60s still have kids at home (pre-Covid-19),” Tully says, “which is probably very different to 20 years ago”.

Also, Canada Life’s research shows that 28 per cent of people between 60-69 had caring responsibilities, which can have massive emotional and financial implications, he adds.

While ONS statistics into families and households in 2019 found that married or civil partner couples remain the most common family type in 2019, they only represent two-thirds of families in the UK, with 2.9 million lone parent families in 2019, akin to 14.9 per cent of families in the UK.

Also, it finds that the number of people living alone has increased by a fifth over the past 20 years, driven mainly by increases in men aged 45 to 64 years living alone.

Increasing divorce rates among the over-40s have caused a massive increase in single person households, with the average cost associated with divorce legal fees and lifestyle changes standing at £15,000. Single-person households spend at least 5 per cent more of their disposable income on bills and basics and 12 per cent more if they are renting or still have a mortgage, Canada Life finds.

Meanwhile, households containing multiple families (which represents 1.1 per cent of all households) were the fastest growing type of household over the past two decades, having increased by three-quarters to 297,000 households in 2019, the ONS finds.

PPI senior policy researcher, Lauren Wilkinson, highlights that this co-habiting can be either with romantic partners, or just platonic, living together for companionship.

### Pension saving impact

These various family structures can have a significant impact of pension saving.

“Modern relationships have become increasingly complex, with cohabitation on the rise and people getting divorced and re-married,” Royal London pension specialist, Helen Morrissey, says. “Added to this the fact that you may accumulate several different pension pots over the course of your lifetime means there is a lot to keep track of.”

What you are keeping track of may differ considerably between groups. For instance, in August 2020, PPI and Now Pensions research found that single mothers reach retirement age with pension savings worth £18,300 – just 36 per cent of the average woman’s savings of £51,000, and only 12 per cent of the average man’s of £156,500. This is 30 per cent less than divorced women, who have £26,100, due to the barriers facing single mums to full-time work diminishing saving opportunities.

The current Covid-19 pandemic may also be affecting the amount people have to save, as an increasing number of parents are supporting adult children. In

August 2020, Barclays found that adult children who boomeranged back to their parents' homes during the lockdown period had totted up an average bill of £2,702.28 in extra household costs.

Tully also notes that receiving an inheritance peaks between ages 55-64 but an inheritance may be split between more people because of blended/complex family situations, making it a less substantial aspect of retirement finances.

### Clarity required

Whatever the amount of pension they acquire, those with complex family situations also need to be particularly clear about what they wish to occur with their savings.

In particular, Wilkinson highlights the issue of co-habitation, giving the example of the *Brewster* case.

In 2017, the Supreme Court ruled that an unmarried woman is eligible to receive a survivor's pension from her deceased partner's pension.

Denise Brewster had lived with her partner William McCullan for 10 years up to December 2009. On Christmas Eve that year, the couple became engaged, however, two days later, McCullan died.

At the time, he had worked for Translink, a public transport operator in Northern Ireland, for around 15 years and had been contributing to the Local Government Pension Scheme. Brewster believes that McCullan had nominated her to be eligible for a survivor's pension. However, the administrators of the scheme said they did not receive a form and therefore refused to pay her a

survivor's pension.

Under regulations passed in 2009, the LGPS required that unmarried co-habiting partners be nominated by their pension scheme member partner in order to be eligible for a survivor's pension. The survivor must also show that he or she has been a cohabitant for two years before the date on which the member sent the nomination and has been in that position for two years before the date of death.

However, the Supreme Court unanimously ruled that Brewster should be allowed to receive a survivor's pension.

It is therefore important for co-habitees to fill in nomination forms to avoid cases like this, Wilkinson advises.

"The importance of completing an expression of wish or nomination form is huge in helping the trustee understand what financial interdependencies may exist, as these may not simply be with those that a person resides with," Quantum Advisory principal benefits consultant, Pauline Iles, agrees.

"If these forms are not updated and your personal circumstances change then there is a chance that the person you named on your expression of wish form could be your ex rather than your current partner and so there is a chance they will receive your death benefits while your current partner (or even children) go without," Morrissey warns.

### Industry role

The saver with the complex family situation does have a responsibility to do what they can to ensure their finances trickle to the right people, but is the pensions industry doing enough to help with this?

The products available already have the flexibility required to cater for complex family and financial situations, Wilkinson says, "but I do think people don't necessarily understand the ways in which they can make their pension savings work best for their situation. They need more support and guidance about how to combine products in a way that

suits them best".

Tully agrees that there are flexibilities within the pensions industry that are continually progressing. "For instance, if you go back 20 years with DB, the benefits went to a spouse of the deceased and if there was no spouse it did not go to anyone. That is gradually changing. And with annuities and drawdown death benefits, you now have much wider definitions of beneficiaries. You can pretty much leave your money to whoever you want now; it doesn't need to be a dependent or spouse or partner."

More can still be done though, with Dalriada Trustees professional trustee, Paul Tinslay, suggesting how the four Financial Conduct Authority investment pathways should have been five, with the fifth being 'some combination of the previous four', "to highlight the flexibility that members do have, instead of savers seeing just one of four outcomes".

Tully suggests the promotion of trusts as an efficient way to keep the money in a pensions wrapper. For example, it can help remove the concern with a stepfamily set-up that if the spouse receives the pension money, it then trickles down to their children, instead of including the deceased's own children.

"Trusts can be useful as this can be much more controlled, helping ensure the money is split across all the children from all marriages," he adds.

Wilkinson also suggests the improvement of guidance or products for those platonically co-habiting to support each other if one dies, without sacrificing their savings as they still have their separate families they may want the money to go to.

For Tully, it is about the pensions industry recognising that these complex situations actually exist. He says: "Pensions literature used to be of happy carefree people wandering on beaches holding hands at sunset. And that is not the case for everyone by any means."

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