



Pensions on divorce – the importance of actuarial expertise

➤ **David Gordon explains the role an actuary can play when determining how pension benefits should be shared following a divorce**

With over 100,000 divorces a year, large numbers of couples ask their pensions providers or administrators for valuations so they can be factored into divorce settlements. Once the pension value has been provided, the couples will consider this alongside all their assets, which may include other pensions.

In some cases, the court will later make a pension sharing order, where the pension holder effectively transfers some their pension to their ex-spouse. Have you ever wondered what happens in between these interactions, or in the many cases when you hear nothing further?

There has been much debate on how to allocate pensions on divorce. Should the value of the pension be used, or should the allocation be based on the relative pensions income in retirement? And should the whole pension be shared, or should it only be the pension built up over the period of the marriage? These are rightly matters for the courts.

In simple cases, the court may decide to leave the couple's pensions untouched, particularly if the values are relatively small. Or the pension could be offset against other assets – so one party might keep their own pension, in return for the other taking the house. In other cases, where the pensions are of significant value, or have other complexities, the parties may seek advice on how they should be treated. They commission a divorce report for the court from a financial expert, often an actuary.

A small number of actuaries and other experts provide a valuable service

preparing these expert reports for the courts on how couples can treat their pensions on divorce. Actuaries, as members of the Institute and Faculty of Actuaries (IFOA), benefit from extensive technical training and are subject to professional regulation; they are particularly well placed for this work.

Thematic review

At the IFOA, we recently carried out a thematic review looking at the quality of these expert reports and the way actuaries carry out this work. The report focused on the position in England and Wales as reports are rarely needed in Scotland, where the approach is simpler. This forms part of a series of IFOA thematic reviews, independently reviewing areas of work in which actuaries have significant involvement and influence.

We were reassured to find that, overall, the divorce reports were of good quality, with sound levels of compliance with standards. Reports often need to quote figures on a range of scenarios in line with the instructions received from family lawyers. However, reports also used inconsistent methods and terminology.

In light of our review, the IFOA has established a pensions on divorce working party to look again at the way pensions should be valued for divorce purposes and to come up with best practices and standard ways of describing them. This should help readers of expert reports understand more fully the advice being given and hopefully lead to more concise reports.

In additional research carried out by the IFOA, divorce was identified

as one of the top six life moments that have the biggest impact on an individual's pension savings and quality of retirement. The valuable insight of pensions on divorce actuaries should not be underestimated during the process. The amount at stake varies by case, but it can be a complex area that greatly benefits from the expert input of actuaries.

Next steps

As part of the thematic review, we heard from both actuaries and lawyers that the collection of data from pension schemes and providers is a major issue, with them often being slow to provide the necessary information. Delays can have knock-on effects of holding up the expert report and sometimes delaying court hearings, all adding to the stress on the divorcing couple.

This has been a longstanding issue. Scheme administrators may be receiving non-standard requests for information, requiring additional work to ensure accuracy, which all takes time.

Divorce can be a very painful process and including pensions in the discussion can make it even trickier. The IFOA pensions on divorce working party is looking at whether there are ways to simplify and speed up the process for both experts, pension schemes and providers and of course divorcing couples themselves, for the benefit of everyone in the process.

➤ **Written by Institute and Faculty of Actuaries senior review actuary, David Gordon**