

### Summary

- Despite pensions being the largest shared asset between couples after property, only 13 per cent of divorcing couples consider pensions when dividing assets.
- This is even more of a challenge for women who are significantly more likely to waive pension rights, which only exacerbates the gender pension gap and can cost them thousands in retirement.
- Experts say financial education, early guidance and policy reform are needed to tackle this issue.



# Splitting up and losing out

➤ **Despite pensions often being one of the most valuable marital assets, they are routinely forgotten during divorce negotiations. Paige Perrin investigates the risks of overlooking pension wealth in divorce negotiations – and what industry, advisers and policymakers could do to stop thousands losing out on retirement income**

When people think about what must be divided in a divorce, they usually focus on the family home, who the children will live with, and any savings. However, it is often the largest shared asset after a house, a pension, that remains completely overlooked.

Research from Legal & General (L&G) found that only 13 per cent of divorcing couples considered pensions when dividing assets, with women far more likely to waive their rights to their partner's pension (28 per cent of women vs. 17 per cent of men).

### The size of the problem

L&G Retail Retirement managing director, Lorna Shah, says the impact of a divorce can be “far-reaching” and “while we, understandably, focus on its emotional impact, the financial implications can last well into retirement”.

“As the divorce process can be an

extremely sensitive and uncertain time for separating couples, it's understandable that they may focus on assets with more immediate or sentimental value, like a shared property,” she continues.

“However, overlooking pensions during this process can have significant consequences for later life, particularly if one partner stayed at home to take on childcare, or other caring responsibilities during the marriage, leaving them with less in their own retirement pot.”

For many, the problem starts with a simple lack of understanding. Trafalgar House director, Dan Taylor, adds that “most people don't know what they are looking at” when it comes to pensions.

He notes that pensions “aren't tangible like houses or bank accounts”. He explains that someone may dismiss a defined benefit income of £8,000 a year, without realising the cash equivalent transfer value (CETV) might exceed £300,000 – often more than the equity in the family home.

Delays in CETV production compound this challenge. Barnett Waddingham senior consultant for pay gap analytics and financial wellbeing, Melissa Blissett, notes that waiting times have stretched to as long as six months in some cases for a CETV, raising legal costs and disrupting divorce timelines.

The financial impact of this knowledge gap is stark, particularly for women. Scottish Widows' research found that 60 per cent of women did not discuss pension assets as part of their divorce, a decision that could leave them around £77,000 worse off in retirement.

Scottish Widows retirement expert, Susan Hope, explains that many people “can't focus on the long term of retirement savings in life-changing moments, while they try to figure out what the near future is going to look like”.

In terms of splitting pension assets in divorce, several options are available, including pension sharing, pension allocation/earmarking and pension offsetting.

While the Law Commission's 2024 scoping report indicates that pension sharing orders (where a pension is split and typically an agreed-upon cash value is invested into a new pension for the divorcing partner) are now the predominant court-mandated route, they are not widely utilised.

Indeed, Now Pensions financial adviser and head of campaigns, Samantha Gould, highlights that less than two in 10 divorces in the UK request a pension-sharing order.

This means that divorced women are reaching retirement age with just half the pension wealth (£26,100) of other women (£57,500), and 10 per cent of the pension wealth of men (£205,800).

Interactive Investor senior manager, Camilla Esmund, suggests that the traditional split after a divorce, where women keep the family home and men keep their pension, is “exacerbating the gender pension divide”.

Gould adds that eligibility barriers further disadvantage divorced women. In 2020, 14 per cent of divorced women were ineligible for auto-enrolment, leaving many reliant on the state pension alone.

Even when couples attempt to address their pensions, navigating the system can be difficult. St James Place head of advice, Claire Trott, argues that pension sharing orders can be “costly and *[as retirement]* is also something that is still a long way off, and people are more concerned about the here and now when they get divorced”.

Trott argues that the process needs reform and should allow monetary-value splits in England, not just percentage-based orders.

The Law Commission report reinforces this, noting that the valuation requirements and court processes involved in pension sharing can create delays and extra costs.

### Improving awareness

The consensus among experts is that people need guidance far earlier. Taylor says members are currently “left to figure it out alone” and that “by the time pensions are brought into the conversation, the divorce may already be well underway – that’s too late”.

He notes that the support offered by the pension industry to people dealing with divorce is “at best... reactive”.

“A member contacts the scheme, usually late in the divorce process, and requests a CETV. At worst, schemes charge for providing the figures, which

can deter members from pursuing what they’re entitled to. There’s no consistent approach, and no real momentum behind educating members about the role their pension plays in divorce,” he says.

Esmund agrees and says that pensions must be discussed earlier in life, not only during divorce. She also emphasises the importance of financial education: “Without better financial education, there’s a danger pensions still seem like a boring pile of admin and remain forgotten”.

**“Creating a fairer pensions system will not happen overnight, but giving pensions more attention during the divorce process can make a tangible difference to the retirement prospects for divorced women in particular”**

However, Taylor argues that this “isn’t a difficult problem to solve”, suggesting that schemes could include prompts in their communications to explain the availability and importance of CETVs, or flag the need to consider pensions during life events like a change of address or marital status.

In addition to financial education, Hope says digital interventions could play an important role in providing practical guidance to support financial resilience, while Taylor argues that clearer language, practical checklists, and early guidance could “change the game”.

Trott agrees and proposes that financial advice could have an “invaluable” role in difficult times such as divorce. She says: “Although the adviser may not be able to suggest the split

because that is usually an actuary’s job, they can guide about what needs to be done and what the financial implications of sharing a pension will be.”

### Now what?

Looking ahead, experts say systemic reform is essential. Hope argues that policy intervention would have a “huge impact” with pensions needing to be embedded more firmly in the financial disclosure and settlement process during divorce. She also says that tighter collaboration is needed between advisers and family lawyers.

“Creating a fairer pensions system will not happen overnight”, Gould says. “But giving pensions more attention during the divorce process can make a tangible difference to the retirement prospects for divorced women in particular”.

She highlights that Now Pensions has been lobbying the government since 2019 for reforms that would help underpensioned groups, including scrapping the £10,000 AE trigger, removing the lower earnings limit, considering pension pots on divorce, introducing a family carer’s top-up and ensuring childcare is more available and affordable.

Meanwhile, Blissett advocates for face-to-face pension education sessions: “These raise confidence in pension understanding and, in the event of future divorce, will enable employees to enter this with a better understanding of what they have and, importantly, the confidence to obtain more information themselves.”

The message from across the industry is clear: Pensions cannot remain the hidden asset of divorce. Without timely guidance, accessible information and targeted policy reform, thousands will continue to enter retirement with significantly less than they are entitled to – simply because they weren’t aware of the financial implications.

 **Written by Paige Perrin**