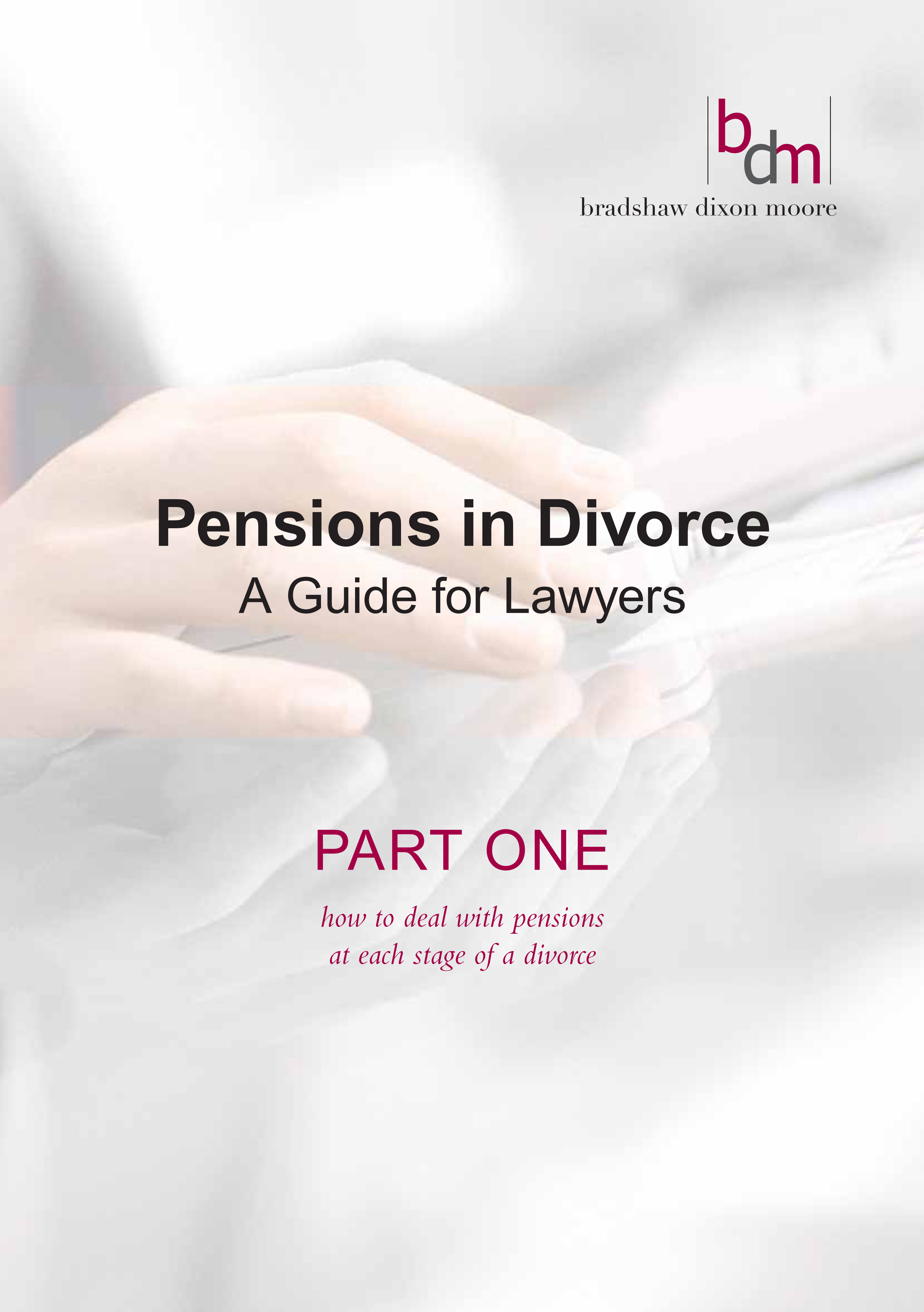

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Pensions in Divorce

A Guide for Lawyers

PART ONE

how to deal with pensions
at each stage of a divorce

CONTENTS

Part 1 "How" or Dealing with pensions at each stage of the divorce

This guide explains how you should deal with pensions at each stage of the divorce process, from the start of the divorce through to the final settlement. Part One focuses on the practical steps and Part Two provides the technical background as reference.

Warnings

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Dealing with pensions at each stage of the divorce

1. First contact

Pensions are unlikely to be either important or urgent for a new client. However pensions are likely to form the largest or second largest financial asset in the relationship. It is rarely optimal to leave them to the end and either ring-fence them or shoe-horn them into a developed settlement.

At first contact the client should be made aware that pensions are an important asset that can be dealt with in a number of ways. Once the immediate issues are resolved, and before long-term plans are made, it will be necessary to start looking at them in more detail.

If the client is in poor health, you may need to plan a different approach for them (see Ill health in Detail, Part 2, Section 3)

1.1 Help the client understand potential size of the pension assets

It is often difficult to estimate the likely value of the pensions held by both parties. An indication of the value at an early stage is helpful in developing a possible plan for your client. Bradshaw, Dixon & Moore offer a free Career Guide Calculator on our website designed for just this purpose. See Examples A&B.

As only 3 items of information are needed the answers necessarily cover a broad range. However they can help put the pension assets in the right context.

Given the size of the pensions, clients may want to think about their aspirations for their future settlement sooner rather than later. The skills of a Financial Advisors can assist in this process and their input at this stage could make implementing the final settlement easier.

1.2 Information on pensions

New clients may prefer to read up on pensions later, when they can start to think about the more important long-term issues.

Solicitors may provide some information of their own to cover pensions as well as other important aspects in the divorce. Alternatively, Bradshaw, Dixon & Moore have a client version of this guide available for downloading or printing from www.BradshawDixonMoore.com/downloads.html .

Websites can be good sources of information and we suggest the following as a starting point.

www.wikivorce.com/divorce/Divorce-Forum/Pensions/ - one forum in a community orientated site covering all aspects of divorce.

www.pensionsadvisoryservice.org.uk/ - an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions covering State, company, personal and stakeholder schemes.

www.sharingpensions.co.uk - a lot of information on different pension types and options, including pensions on divorce.

www.BradshawDixonMoore.com – currently focused on the needs of professionals, but the site is regularly upgraded.

www.AncillaryActuary.co.uk – a blog predominantly for professionals though it may interest clients who are technically focused.

Example A

Information provided	
Age:	40
Current earnings:	£24,000
Years in pensionable employment:	18
Typical values of pension assets	
Between	£55,000
and	£153,000

Example B

Information provided	
Age:	55
Current earnings:	£80,000
Years in pensionable employment:	21
Typical values of pension assets	
Between	£289,000
and	£801,000

The free calculator is at www.bradshawdixonmoore.com/calculator.html.

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2. Information gathering

It is necessary to allow for **past** pensions as well as current ones. In Scotland and for shorter marriages this covers all pensions accrued during the marriage, otherwise it includes all pensions whenever accrued.

The necessary steps are:

- identify all pensions for both parties
- obtain disclosure information on client's pensions

Pensions to be covered include:

- Additional State Pension (but not the Basic State Pension)
- Deferred occupational pensions (previous employments)
- Active occupational pensions (current employments)
- Additional voluntary contributions (past and current)
- Private pensions, active or lapsed

Pensions are all valuable assets and therefore to overlook a pension owned by the client's spouse or partner could result in financial harm.

2.1 Identifying pensions

It is necessary to identify your client's pensions to be able to disclose them, and the spouse's pensions to be able to validate their disclosures.

A convenient approach is to start with employment history and then determine what pensions, if any, were associated with each employment. Some points to note with this method:

- always include the Additional State Pension
- check for employment gaps
- ask whether any financial windfalls such as inheritances or redundancy payments were put into single premium pension arrangements
- identify if older pensions were transferred into newer or alternative arrangements
- ask if additional voluntary contributions were ever made, as they often go into separate arrangements
- note if any pensions are already in payment

Bradshaw, Dixon & Moore produce a form suitable for the client to complete as part of the data gathering process.

A separate form should be completed for both parties.

Pension identification form

Name: **Status:** Client / Spouse

Employment	Start	Finish	Company Pension?	Company Pension?		Notes
	Month / Year	Month / Year		Regular Payments	One-off Payments	Include transfers made between schemes, if additional contributions were made or if the pension is in payment

Check: Are there any gaps in employment? Were any financial windfalls invested as single premiums?

Additional copies of this form may be obtained from www.BradshawDixonMoore.com

This form is available as a free downloaded from the web site, www.BradshawDixonMoore.com/downloads.html.

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2.2 Tracing lost pensions

If there is any doubt as to whether a client, or more likely, their spouse or partner, was able to accrue pension benefits whilst with a particular employer, it may help to establish in the first place whether the employer has or had an occupational pension scheme. The Pension Tracing Service is a free service offered by The Pension Service (part of the Department of Work and Pensions). Search requests can be made online at or you can ask for request forms to be sent to you by calling 0845 6002 537. The website address where you or your client can make a search request is; http://www.thepensionservice.gov.uk/atoz/atozdetailed/pensiontracing.asp.

The best results are achievable by understanding the limitations of the service. It utilises the register of pension schemes that is maintained by The Pension Service and is not specific to pension scheme members. It relies on the skills and experience of the individual who responds to the request as these are handled manually.

Certain pensions, stakeholder plans for example, are not registered individually to the employer, so a search for a stakeholder plan sponsored by a small employer is likely to be unsuccessful. Pension schemes are often run by parent organisations rather than their subsidiaries, so it can help to know a something about the organisational structure. A match does not necessarily prove that an individual was a member of a pension scheme or accrued benefits as they may have been ineligible for membership. However, a match will suggest that further enquiries of the spouse or partner may be warranted. The absence of a match does not prove that no pension scheme exists.

This service can also be to trace the administration address for personal pensions, which is useful as so many pension providers have merged over recent years that it can be difficult to find out who you should write to for CETVs. As tracing requests are not personal to the pension scheme member, their spouse or partner, they can be done by anyone.

2.3 Obtaining disclosure information on pensions

2.3.1 Additional State pensions

Valuation requests are made using form BR20 obtainable from The Pensions Service; it is not currently available on-line or on the Pension Service web site. Requests can be made on behalf of the individual and our understanding is that the individual's signature is not an essential requirement. There is no charge for the valuation and the turnaround time for requests is usually reasonable.

A valuation of your client's Additional State Pension (SERPS/S2P) is a Form E requirement. Although these valuations are free from The Pensions Service (part of the Department of Work & Pensions) the quoted service delivery is an average of forty days to prepare a valuation.

Our recommendation is that to avoid delays later in the proceedings, the valuation is requested at an early stage. The form required – BR20 – is available on request from the Pensions Service; contact details are available on their web site at www.thepensionservice.gov.uk/.

The Pension Service no longer provide the form as a web site pdf download, but we have made one available on our website where it is a free download, please go to www.bradshawdixonmoore.com/downloads.html.

2.3.2 Defined Benefit pensions (not in payment)

It is a legal requirement to disclose in From E a valuation provided by the scheme administrators known as a Cash Equivalent Transfer Value **(CETV)**. Scheme administrators are obliged to provide a free CETV in any twelve month period, unless the member is within twelve months of normal pension age, when a charge can be made for providing the valuation.

Turnaround times for providing valuations vary considerably with some schemes frequently taking the full three months allowed under the appropriate legislation to calculate a CETV.

There are issues with the appropriateness of the CETV for use in the divorce process. However, the CETV inevitably provides a lower value than that which an appropriate valuation would. Therefore, these issues are addressed when considering the receipt of spouse's pension values during the Form E exchange.

We also recommend asking for **Form P** to be completed by the administrator at the same time as requesting CETV's. Although Form P is essentially about pension sharing and how it will be implemented by the scheme, it provides other useful information, which should include the pension scheme booklet. We therefore recommend that this is obtained irrespective of whether a sharing order is a possibility.

2.3.3 Defined Contribution pensions (not in payment)

Administrators of defined contribution pensions are often not familiar with terms such as CETV and CEB. However, they will understand a request for a transfer value and this should be both quick and easy to obtain.

Many collective investments have some form of equity investment component. This often means that the value of a defined contribution pension can vary considerably from day to day and month to month, depending on the economic climate at the time. A valuation obtained on any particular day can give an unrealistic indication of value and should be used with care.

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2.3.4 Pensions in Payment

The valuation basis for pensions in payment from a scheme is called a Cash Equivalent Benefit (CEB) and although administrators must provide a valuation under pension sharing legislation there is no right for it to be provided free. Therefore as a bespoke calculation only for divorce purposes most administrators charge.

It is a moot point whether the provision of a CEB by the scheme, as opposed to an alternative valuation, is mandatory for Form E or not. The valuation options for Form E for pensions in payment are therefore:-

CEB from the pension scheme

Advantages	**Disadvantages**
Assumed consistent with CETV	Cost (average £500)
	Time (up to 3 months)
	Potentially not available

Express Pension Valuation only from Bradshaw, Dixon & Moore

Advantages	**Disadvantages**
Cost (£100 + VAT)	Reliant on data provided by client
Time (5 working days)	Some simplification of benefits
No contact with pension scheme needed	
Signed off by an actuary	

Actuarial Report from Bradshaw, Dixon & Moore or other providers

Advantages	**Disadvantages**
Data checked with pension scheme	Cost (e.g. £475 + VAT from BDM)
Signed off by an actuary	

A straight replacement value (what it would cost to replace the pension annuity in the open market) is likely to over-value the pension.

3. Exchange of information (Form E's)

Following the exchange of information, typically on Form E's, it is the solicitor's duty to ensure that the information provided by the spouse is:

- complete; and
- correct.

Even if a spouse has completed their information as fully as possible it is still likely that the values provided for pensions are incorrect. This is due to systemic issues with using transfer values. Transfer values are the pension equivalent of an immediate, "fire-sale" valuation of a house, as opposed to an orderly-sale estimate.

Frequently therefore the valuations provided by a spouse are too small. The correctness of pension values received should always be checked as shown below.

Beware that the spouse's solicitor should be doing the same thing with the values provided by your client.

3.1 Checking information received is COMPLETE

You should have from the fact-finding process a list of expected pension schemes, for example as collected on the Pension Identification Form (see 2.1, Page 3 Identifying Pensions). Validate pensions disclosed for the spouse against this list.

Do not forget to include that the Additional State Pension should be disclosed.

3.2 Checking information received is CORRECT

The following types of benefit are likely to be incorrect.

- Defined benefit (final salary) pensions
- Defined contribution (money purchase) with
  - transfer value penalties;
  - market value adjusters on with-profits; or
  - guaranteed annuity or other valuable options attaching
- Pensions in payment

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3.2.1 Defined Benefit pensions (not in payment)

The six reasons that CETVs underestimate the true value of defined benefit pensions for a divorce are covered in Part 2 Section 3. This analysis is also available separately on www.BradshawDixonMoore.com/downloads.html for inclusion in submissions or briefing packs for barristers.

If it is certain that pensions will be dealt with by offsetting, and both parties agree on the use of actuarial values, then it is possible to move directly to getting a full actuarial valuation report with costs shared between the two parties. See section 4.8, Page 13.

In other cases where offsetting is a possible solution, then it will be necessary to argue for the use of a full actuarial valuation. This will mean convincing one or both of the client and the judge that the cost of the report is proportionate to its benefit.

We believe that the cost of a report will normally be proportionate where either:

- the CETV is worth £30,000 or more; or
- the pension relates to current employment in one of the uniformed services.

Example C – CETVs versus Actuarial Valuations

Scheme	CETV	Actuarial Valuation	Difference
Royal Mail	£128,000	£164,000	+ 28%
NHS	£120,000	£244,000	+103%
Local Government	£ 84,000	£138,000	+ 64%
Private Company	£225,000	£324,000	+ 44%
NHS	£ 96,000	£176,000	+ 83%

Source: Bradshaw Dixon Moore reports

3.2.1.1 Use of Express Pension Valuation to argue proportionality

We have developed the Express Pension Valuation as an excellent tool for establishing the likely fair value of a pension in a divorce context and hence whether the cost of a full actuarial report is proportionate.

An innovative service, it uses reliance on information provided by the client or practitioner together with some benefit simplifications to produce a quick and affordable valuation based on sound actuarial principles.

Due to the reliances and simplifications it is unlikely that EPVs will be accepted by a court where the use of anything other than the CETV as the valuation basis is challenged by the other side. However it is possible that in undisputed cases it can be agreed that the EPV value is used instead of the CETV and the additional expense of an independent actuarial report avoided. This may be particularly appropriate for pensions with a value of less than £100,000.

The Express Pension Valuation range covers the following pensions

On-line EPV	Private sector defined benefit pensions, not in payment
Uniformed Services EPV	Public sector defined benefit pensions (excluding uniformed services), not in payment
Pension-in-Payment EPV	Defined benefit and defined contribution pensions in payment

In all cases, payment is by credit card or by pre-arranged, subscription-free account.

3.2.1.2 On-line EPV

For most private sector pensions and non-uniformed services public sector pensions. Turnaround time depends entirely on your typing ability, but typically less than 20 minutes.

Example D – Uniformed Services' CETVs versus Actuarial Valuations

Scheme	CETV	Actuarial Valuation	Difference
Police	£283,000	£520,000	+ 84%
Army	£105,000	£394,000	+275%
Army	£ 59,000	£ 91,000	+ 54%
Police	£382,000	£679,000	+ 78%
Firefighter	£101,000	£334,000	+231%

Source: Bradshaw Dixon Moore reports

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3.2.1.3 Uniformed Services EPV

For valuing pension in

- Armed Forces Pension Scheme
- Fire-fighter's Pension Scheme
- Police Pension Scheme
- Prison Officers' Pension Scheme

Turnaround time is five working days from receipt of all necessary data.

3.2.2 Defined Contribution pensions (not in payment)

Check whether the value provided for a defined contribution is a transfer value or a fund value. If a transfer value then for insurance-based pensions within 5 years of commencement or invested in with-profits, ask for the fund value as well as this might be higher. Normally the fund value is the appropriate value to be used in a divorce settlement.

If the pension is insurance-based and started before 2000 ask if the policy has a guaranteed annuity or similar options attached. These may not be declared in pension benefit statements and original policy documentation should be checked. Guaranteed annuity options enable the fund at retirement to be converted into an annuity at a minimum rate that often compares very favourably with current annuities and means that the policy is more valuable than indicated just by the fund value.

Valuing SIPPS & SSASs will usually require professional input.

A Financial Advisor could assist in identifying and resolving these issues.

3.2.3 Pensions in Payment

Pensions in payment have similar features to defined benefit pensions and the use of a full actuarial valuation, with prior justification by using Bradshaw, Dixon & Moore's Express Pension Valuation, is recommended.

Income drawdown, or unsecured pensions as they are also called, are closer to defined contribution pensions and similar guidelines apply.

3.2.3.1 Pension in Payment EPV

For valuing pensions in payment. Turnaround time is five working days from receipt of all necessary data.

If it has already been determined that pensions will be shared then there is no need to determine an accurate valuation and it is possible to move directly to getting a full actuarial pension reallocation report, preferably with costs shared between the two parties. See section 4.8, Page 13.

Example E – CEBs for pensions in payment versus Actuarial Valuations

Scheme	CEB	Actuarial Valuation	Difference
Army	£119,000	£140,000	+ 18%
Private Company	£380,000	£608,000	+ 60%
Private Company	£494,000	£455,000	- 8%
Army	£ 66,000	£119,000	+ 80%
State 2nd Pension	£111,000	£114,000	+ 3%

Source: Bradshaw Dixon Moore reports

4. Structuring the financial settlement

There are two basic ways to handle a pension: offsetting or splitting.

4.1 Offsetting

Offsetting simply involves allowing for the value of the pension asset in the settlement "in the pot" with all other assets. However as the pension is undisturbed it must belong to the pension holder in the final settlement.

4.2 Splitting

Splitting can aim to split the value of the pension in some proportion, or to achieve an equal pension income for both parties at some point in retirement.

Splitting can be achieved through the different legal mechanisms of sharing or attachment. Sharing produces a clean break and is generally considered the best solution, though it has a number of issues and attachment might be more appropriate in certain circumstances

4.3 Combination

When splitting pensions it is common to ring fence the pensions and split equally after the division of the non-pension assets. However it is possible to use uneven splits or a combination of offsetting and sharing in a combined solution.

4.4 Use in practice

Examples F and G (on pages 8 & 9) show how the different approaches can be used in two simplified cases. Some common features emerge:

- **Offsetting** only can be restricting as large assets have to be kept with the pension holders
- **Ring-fencing** pensions is also restricting as it gives less scope for dividing the remaining assets
- Ring-fencing and sharing pensions by equalising income always produces a difference in value in the assets
- It might be judged that the best overall approach is the combination solution, involving unequal splitting of pension assets between the two parties.

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In general Bradshaw, Dixon & Moore recommend that pensions be considered as part of a holistic settlement. The client may find a Financial Advisor's input beneficial as they can advise on how to reshape any settlement to better meet the client's needs and aspirations, for example by the investment of a lump sum to generate future income.

Example F: Dividing Assets Equally

Assumes for simplicity that exact equality of assets required with no other constraints.

Combined assets

Family Home	£300,000	less mortgage	£150,000
"His car"	£50,000		
His pension	£250,000	projected pension	£20,000pa
Other assets	£75,000	less other loans	£25,000
Total asset value net of mortgage and loans		£500,000	

Option 1 — Offsetting – two possibilities

Possibility 1

	Him	Her
Family home		£300,000
Mortgage		-£150,000
"His car"		£50,000
Pension	£250,000	
Other assets		£75,000
Other debts		-£25,000
Total	£250,000	£250,000
Projected pension	£20,000pa	Nil

Possibility 2

	Him	Her
Family home		£300,000
Mortgage	-£75,000	-£75,000
"His car"	£50,000	
Pension	£250,000	
Other assets	£25,000	£50,000
Other debts		-£25,000
Total	£250,000	£250,000
Projected pension	£20,000pa	Nil

Option 2 — Splitting – ring fence pensions

Equalising pension values

	Him	Her
Family home		£300,000
Mortgage		-£150,000
"His car"	£50,000	
Other assets	£75,000	
Other debts		-£25,000
Total excl. pensions	£125,000	£125,000
Pension	£125,000	£125,000
Total incl. pensions	£250,000	£250,000
Projected pension	£10,000pa	£8,000pa

Equalising pension incomes

	Him	Her
Family home		£300,000
Mortgage		-£150,000
"His car"	£50,000	
Other assets	£75,000	
Other debts		-£25,000
Total excl. pensions	£125,000	£125,000
Pension	£112,500	£137,500
Total incl. pensions	£237,500	£272,500
Projected pension	£9,000pa	£9,000pa

When equalising pension incomes there is an uneven split of total assets.

Option 3 — Combination solution

	Him	Her
Family home		£300,000
Mortgage		-£150,000
"His car"	£50,000	
Pension	£175,000	£75,000
Other assets	£50,000	£25,000
Other debts	-£25,000	
Total	£250,000	£250,000
Projected pension	£14,000pa	£5,000pa

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Example G: Unequal division of assets

Assumes she has a minimum requirement of the home and £10,000

Combined assets

Family Home	£200,000	less mortgage	£140,000
His pension	£80,000	projected pension	£6,000pa
Her pension	£60,000	projected pension	£4,000pa
Other assets	£20,000		

Total asset value net of mortgage and loans £220,000

Option 1 Offsetting

Possibility 1

	Him	Her
Family home		£200,000
Mortgage		-£140,000
His pension	£80,000	
Her pension		£60,000
Other assets	£10,000	£10,000
Total	£90,000	£130,000
Projected pension	£6,000pa	£4,000pa

Option 2 Splitting – ring fence pensions

Equalising pension values

	Him	Her
Family home		£200,000
Mortgage		-£140,000
Other assets	£10,000	£10,000
Total excl. pensions	£10,000	£70,000
His pension	£70,000	£10,000
Her pension		£60,000
Total incl. pensions	£80,000	£140,000
Projected pension	£5,250pa	£4,600pa

Equalising pension incomes

	Him	Her
Family home		£200,000
Mortgage		-£140,000
Other assets	£10,000	£10,000
Total excl. pensions	£10,000	£70,000
His pension	£65,000	£15,000
Her pension		£60,000
Total incl. pensions	£75,000	£145,000
Projected pension	£4,875pa	£4,875pa

Ring fencing the pensions further exacerbates the inequality of the asset split.

Option 3 Combination solution

	Him	Her
Family home		£200,000
Mortgage		-£140,000
His pension	£80,000	
Her pension	£20,000	£40,000
Other assets	£10,000	£10,000
Total	£110,000	£110,000
Projected pension	£7,666pa	£2,667pa

She can now meet her minimum requirements and equality of assets can be achieved.

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4.5 Issues with offsetting

The major issues with offsetting are:

- ensuring that asset values are correct (see section 3.2, Page 5)
- working around the pension holder having to retain their own pensions

A secondary issue is that a high-earner might find it tax efficient to share their pension to their spouse and rebuild it fully tax-deductible from their future income. Such planning exercises would normally involve the use of a Financial Advisor. Otherwise offsetting is a straightforward and inexpensive approach.

4.6 Issues with pension sharing

A minor issue with sharing is the cost. Legal, scheme and actuarial fees should be expected to total about £2,500 plus VAT.

4.6.1 Loss of value

The major issue is the different ways schemes implement pension sharing legislation. This could mean that by sharing **the couple lose a lot of the pension value**.

As shown in Example H there are three common approaches.

Scheme type 1 could be considered the fairest approach, and is used by most state schemes. It sets up the receiving person as a deferred pensioner, based on their share of the CETV. Their pension is then independent of what happens to the donating party. The deduction from the donating party is only calculated at their retirement date as what they would have received without the sharing less the current value of the pension shared.

It can be seen that the intention is to try and provide the same total value of pensions as if there had been no sharing. Our valuations tend to show that they are a little under-value or a little over-value, but on average they are getting it right.

Scheme type 2 also sets up the receiving person as a deferred pensioner, based on their share of the CETV. However, they calculate the deduction from the donor immediately, normally by reducing their accrued service pro-rata. The donor therefore loses any advantage of future salary increases on that service. In essence, the scheme benefits by paying (lower) statutory increases, rather than (higher) salary increases on the shared pension.

Scheme type 3 is the common case, especially where the scheme administration is outsourced, where the receiver's share of the CETV is paid out as an external credit to a private pension. This is a double whammy as it capitalises the lower value of the CETV versus the pension's true value, and then it has to go through the initial and annual expenses of running a private pension.

In all cases the value of the receiver's pension is significantly less than that of the donor, even though the receiver got 50% of the CETV.

Example H: Different outcomes of a 50% of CETV share

For a couple both aged 45 sharing his current defined benefit pension
His pre-share pension is projected to pay £25,000pa from age 60, to be worth £250,000 and with a CETV of £200,000.

Scheme type 1

Internal credit to her. His debit calculated and deducted at retirement

His pension	£16,500pa		Her pension	£7,900pa
Value	£164,700		Value	£ 82,300
	Total value	£247,000		
	Loss due to sharing	£3,000	(costs)	

Scheme type 2

Internal credit to her. His debit calculated at date of share

His pension	£12,350pa		Her pension	£7,900pa
Value	£123,500		Value	£ 82,300
	Total value	£205,800		
	Loss due to sharing	£ 44,200		

Scheme type 3

External credit to a personal pension. His debit calculated at date of share

His pension	£12,350pa		Her pension	£7,500pa
Value	£123,500		Value	£ 78,100
	Total value	£201,600		
	Loss due to sharing	£ 48,400		

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Whenever we at Bradshaw, Dixon & Moore produce a report on a pension share then we always report on the difference in overall value post-sharing compared to pre-sharing.

4.6.2 Equalising income

Example I reruns the case in Example H, but looking to equalise income at age 60. In each case significantly more than 50% of the CETV has to be shared to the receiver to generate equality of income.

The result is that when equalising income there can be major differences in the value of the post-shared pension to each member, and that there can be significant loss of overall value.

However, the share and value to each party will vary depending on their ages and potentially by the date at which the income is equalised.

Example J looks at the position for a type 1 scheme where the wife is 5 years younger or older than the male.

Example I: Different values when equalising income

As in example 3 a couple both aged 45 sharing his current defined benefit pension

His pre-share pension is projected to pay £25,000pa from age 60, to be worth £250,000 and with a CETV of £200,000.

Scheme type 1

Internal credit to her. His debit calculated and deducted at retirement

Share		24%		76%
His pension		£12,100pa	Her pension	£12,100pa
Value		£121,000	Value	£125,900
	Total value	£247,000		
	Loss due to sharing	£ 3,000	(costs)	

Scheme type 2

Internal credit to her. His debit calculated at date of share

Share		39%		61%
His pension		£9,600pa	Her pension	£9,600pa
Value		£ 96,500	Value	£100,300
	Total value	£196,800		
	Loss due to sharing	£ 53,200		

Scheme type 3

External credit to a personal pension. His debit calculated at date of share

Share		38%		62%
His pension		£9,300pa	Her pension	£9,300pa
Value		£ 93,100	Value	£ 97,000
	Total value	£190,100		
	Loss due to sharing	£ 59,900		

Example J: Equal income variability by age

A male aged 45 sharing his current defined benefit pension, scheme type 1

She aged 40. Shared for equal income in 20 years time when her pension starts. His started 5 years earlier

Share	28%		72%
His pension @ 65	£15,400pa	Her pension @ 65	£15,400pa
Value	£129,300	Value	£117,700

She aged 50. Shared for equal income in 15 years time when his pension starts. Hers started 5 years earlier

Share	19%		81%
His pension @ 65	£13,500pa	Her pension @ 65	£13,500pa
Value	£112,900	Value	£134,100

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It can be seen that the income levels, and values, vary significantly due to the different start dates of the pensions.

The date at which the pension is equalised is only significant when pensions in payment escalate at different rates. This may be the case where more than one pension is being considered, or a pension includes a GMP element. Alternatively one pension may have a step change at some point in time. The main example of this is the early pension payable to members of the uniformed services. For a policeofficer that retires at age 50 their pension does not increase for 5 years and then has a large increase to catch-up on inflation since retirement.

4.6.3 Risk

An internal credit will set up the receiver as a deferred member and they will have the common risk of a deferred member. The major difference to their donor is that if their spouse is still in employment then their pension will increase in line with earnings and not at a maximum of RPI.

The risks are greater where the receiving spouse has to take an external transfer to a private pension. Then their pension will bear the risks of future investment returns, including their own asset selection, of the provider expenses as expressed through the charges, and their own longevity risk.

Due to these risks a client may place a lower value on a private pension than the market-consistent value in an actuarial report. However, this would depend on their own particular circumstances.

Bradshaw, Dixon & Moore will always report on the risk factors, but do not provide individual advice and recommend the use of a Financial Adviser.

4.7 Issues with attachment

Attachment does not create a clean break, although the spouse need only deal with the pension scheme not their ex-partner. However as the attachment is for a share of the partner's benefits then the spouse only gets those benefits when the partner does.

Specifically for the receiving spouse the issues include:

- If the partner dies then any pension benefits stop
- if the spouse remarries then the attachment ceases
- The partner is taxed on the full pension
- The attachment is specified in terms of final benefits, even if these are unknown at divorce

The issue of the partner dying can be covered by insurance, and there are some advantages in terms of flexibility to specify attachment for pension, lump sum and death benefits separately, and to vary the order in future.

4.7.1 Situations where attachment orders may be preferred

There are some situations where an attachment order might be considered in preference to a pension sharing order.

- When the spouse will not want to remarry
- When the pension holder is near to taking their pension
- When the spouse is in ill-health

Attachments can be particularly useful for dealing with uniformed services pensions where the pension holder might be taking an immediate pension at an early age. If the spouse took a pension share then they could not take their income until 60 or 65 depending on the scheme. However if an attachment is used both parties could take income as soon as it becomes available.

4.8 Actuarial Reports

Actuaries are professionals who value pensions and who can do the necessary splitting and sharing calculations.

Bradshaw, Dixon & Moore provide full actuarial reports that meet the requirements of an independent expert witness. Turnaround time is five working days from receipt of all necessary data. Depending on the pension scheme, we may need to obtain generic and client specific data from the scheme administrators. This can add considerably to report turnaround times.

We have robust data collection and follow-up processes that are effective both in achieving timely results and keeping you, the client, informed at all key stages. So, you will always know what stage any case is at.

At time of writing (July 2008) full actuarial reports to value pensions for offsetting purposes cost from £475 + VAT, and pension reallocation reports for sharing or attachment cost from £600 + VAT.

Our reallocation reports can report on sharing based on the capital sum, income equalisation or a combination. Bradshaw, Dixon & Moore test for any potential financial harm that might result from the proposed sharing order and report on the risks to the receiving party.

4.9 Longevity Assessment

Bradshaw, Dixon & Moore's standard client instruction forms include an optional longevity assessment questionnaire. We have the capability to make medical longevity assessments in-house, which our actuaries can use in their calculations as appropriate. Not all actuarial firms have the ability to make individual medically based longevity assessments.

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Reports from Bradshaw, Dixon & Moore

During Information gathering

- **Pension in Payment EPV** on own client's pensions

Alternative to CEB from scheme for disclosing in Form E	Complete and return BDM instruction form	£100+VAT

- **Longevity report** on client or spouse

Quantifies effect of poor health on mortality and hence possible shape of financial settlement	Complete and return BDM instruction form	£100+VAT (exclusive of any medical fees)

On exchange of information (Form E's)

- **Uniformed Services EPV** on spouse's defined benefit pensions

Correct CETV from scheme which is likely to underestimate true value by between 50% and 300%	Complete and return BDM instruction form	£50+VAT with reconciliation

- **EPV** on spouse's other defined benefit pensions

Correct CETV from scheme which is likely to underestimate true value by 30% or more	Produce on-line	£25+VAT

- **Pension in Payment EPV** on spouse's pensions in payment

Alternative to CEB from scheme which may underestimate true value by 30% or more	Complete and return BDM instruction form	£100+VAT

Structuring the financial settlement

- **Full Actuarial Valuation**

Correct pension values for use in offsetting. Suitable for single or joint instructions.	Complete BDM quotation form.	From £475+VAT

- **Full Pension Reconciliation Report**

Correct pension sharing or attachment percentages to meet income or value-based objectives. Suitable for single or joint instructions.	Complete BDM quotation form.	From £600+VAT

All forms can be downloaded from www.bradshawdixonmoore.com/downloads.html or phone 0845 838 2551.

All costs correct at time of writing (July 2008)

PiD/Part 1/v1/07.08

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