Pensions on divorce

If you get divorced, your company pension could be affected.

Your company pension is a valuable asset. After your house, it may well be the biggest investment you've got. Since December 2000, the courts have been required to take the value of your pension, and your spouse's, into account when your assets are split. This is to prevent spouses who don't have a company pension ending up in poverty. The courts normally do this by offsetting, or issuing a pension sharing order.

Offsetting

When a couple's assets are valued, the partner with the bigger pension will get a smaller share of the other assets. Take, for example, a couple owning a house worth £100,000 and having savings of £20,000. The husband has built up a Cable & Wireless pension of £10,000 a year but the wife has no company pension of her own.

	Husband's assets	Wife's assets	Total
House	£ 50,000	£50,000	
Savings	£ 10,000	£10,000	
Transfer value of the husband's pension	£100,000		
Total	£160,000	£60,000	**£220,000**

If the assets were divided equally, they'd each get £110,000. Offsetting could mean that the ex-wife would take the whole value of the house and half of the savings. The husband would keep his entire pension and get half of the savings

Pension sharing

If the court issued a pension sharing order, we would calculate a transfer value and pay some of it to the ex-spouse. The member's pension would have a debit recorded against it, which would be deducted at retirement, after an adjustment for inflation. If the member left before retirement, the pension would be reduced right away.

Pension sharing is a 'clean break' settlement so the ex-wife wouldn't be able to make a claim for any pension her ex-husband earned in the future.

What happens in practice

We get a request for a transfer value. This could come from the member, a solicitor, the ex-spouse or the court. We then issue a transfer value and a summary of the way in which it's been calculated, along with information about charges and how the ex-spouse's payment will be made.

Sometimes the process stops here and the information is used simply to help the divorcing couple arrive at a financial settlement.

If we subsequently receive a pension sharing order, we have to implement it within 4 months of the date on the order. Once the order has been implemented, we have to tell the member and the ex-spouse about their benefits within 21 days.

Once we have all the information we need, the ex-spouse's benefit would be paid into a personal pension policy, or their own company pension scheme. We can't help the ex-spouse choose a personal pension as we're not allowed to give financial advice.

The member's pension benefit could either be debited when we make the payment, or at retirement.

Pension sharing examples

- Ms A is a member of the Lifetime benefits plan. She's thirty years old and has £21,000 in her plan account.
  The court issues a sharing order specifying that 30% of her pension benefit should go to her ex-husband so we take £6,300 from her account and pay it into his personal pension policy.

- Mr B is a member of the Superannuation fund. He's forty years old and has built up a pension of £10,000 a year at the point of divorce. We calculate that his transfer value would be £100,000.

  The court issues a sharing order specifying that 40% of his pension benefit should go to his ex-wife so we pay £40,000 into her personal pension policy and record the amount as a debit of £4,000 a year against his pension.

  By the time Mr B retires at 60, he's built up a pension of £24,000 a year. We apply inflation to the £4,000 a year debit, increasing it to £6,000 a year and deduct it from his pension. So Mr B gets £18,000 a year (£24,000 - £6,000).