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Pareto
ALL MATTERS FINANCIAL

FINANCIAL PLANNING DURING A DIVORCE

Ensure the correct financial decisions are made for your future.

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Untangling finances during a divorce can be difficult and decisions can be emotionally charged. This can have significant and long-lasting consequences for you and your finances which may not become apparent until much later on.

People often take financial advice once their divorce settlement is agreed, but involving a financial planner earlier means that they can help shape the divorce settlement. They can assist with making sure the correct financial decisions are made for your future.

PENSIONS

One of the most complex areas encountered during divorce negotiations is that of pensions.

After the main residence the most significant family asset is quite often accrued pension entitlement, with both parties jointly entitled to pension assets.

It is important that people consider specialist financial advice in respect of pension assets that might become subject to divorce negotiations.

Employing the skills of a financial adviser experienced with dealing with pensions on divorce will help with the complexity and make pensions less confusing during divorce negotiations.

Without advice certain tax liabilities might arise when drawing benefits. This is an area where seeking good financial advice makes sense.

There are three main ways that pensions are dealt with on divorce:

1. Pension sharing orders

A pension sharing order states the percentage of a person's pension to be shared with their ex-husband, wife or civil partner as part of a divorce settlement. A pension credit can then be transferred into a new or existing pension scheme.

The main advantage of a pension sharing order is that it gives everyone a clean break and the pension sharing order is not impacted by a potential change in future circumstances, such as a remarriage or a death.

Once the pension sharing order has been granted, it is beneficial to work with a financial planner. If you are in receipt of a pension credit, they can advise on how to invest it and how to take your pension in the most tax-efficient way.

2. Pension offsetting

With pension offsetting each party keeps their pension assets, but these are then offset against the other assets. For example, if you have a larger pension pot, your ex-partner could take another asset of similar value.

There are challenges with pension offsetting as it is not easy to split assets fairly and one party could end up with little or no pension on retirement.

3. Pension attachment and earmarking orders

On your divorce, or dissolution of your civil partnership, all your and your ex-partner's assets are taken into account. This is known as pension attachment in England, Wales and Northern Ireland, and earmarking in Scotland.
With pension attachment or earmarking, part or all of the benefits from a pension go to your former husband, wife or civil partner when the pension pays out.

The court instructs the pension or scheme provider to make payments to this person. This doesn't provide a clean break, as an ongoing link with your ex-spouse or civil partner will remain.

SAVINGS & INVESTMENTS

Investments and savings will generally form part of your financial settlement if you divorce or your partnership is dissolved.

Dividing them should be relatively straightforward if you can negotiate with each other. But you may need to value them and pay tax or charges if you sell or transfer them or cash them in.

Individual Savings Accounts (ISAs) can only be held in one person's name so if divided on divorce, they will lose their tax benefits. You cannot transfer the money from your own ISA directly to theirs.

Other tax-efficient investments such as offshore bonds, Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme (EIS) are complex areas of financial planning.

It is advised to seek professional advice in these areas to help secure a fair settlement.

Confirm attitude to risk

The value of financial assets such as pensions and ISAs with stock market exposure can fluctuate on a daily basis, sometimes significantly during protracted divorce negotiations.

The investment risk exposure of the marital investment portfolio may reflect one spouse's attitude to investment risk, but not necessarily the others.

Adopting a lower level of investment risk within assets that may be shared as part of a divorce settlement could provide greater certainty and reduce the likelihood of a sudden stock market fall compromising the value.

REFLECT & PLAN

Reviewing your protection needs

Ensuring that protection policies reflect the new personal and financial circumstances is essential for protecting you against the unexpected.

Circumstances could change considerably following a divorce, in which case it may be necessary to revise the level of cover a policy provides. This is especially important if there are children or financial dependants.

Investment management

Once a settlement is reached, it's important to consider how that amount of money will meet your needs throughout the future. There are a wide range of investment options to create a personalised investment portfolio that takes into account investment time-scales, attitude to risk and the growth required to meet objectives.

Reviewing lifestyle and financial objectives is an important step post-divorce. It is important to consider lifestyle objectives and the level of future expenditure that will be required to achieve your aspirations before making investment decisions.

Cash flow modelling

The use of lifetime cash flow modelling with your adviser can be an important aspect of establishing whether aspirations are realistic and will influence your future investment decisions.

Establishing a financial plan is important, however objectives should be reviewed at least annually. Assessing whether plans remain on track to achieve your desired lifestyle and to amend those objectives is important.

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A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Once money is paid into a pension, it cannot be withdrawn until you are aged at least 55 (increasing to 57 from 2028 unless your plan has a protected lower pension age). Your pension income could also be affected by interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation, which are subject to change in the future. Past performance is not a reliable indicator of future performance. The value of investments and income from them may go down. You may not get back the original amount invested.

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