BECKY TAYLOR FAMILY MEDIATION

FREE GUIDE · PENSIONS IN DIVORCE

Understanding Your Pension in Divorce

How pensions are valued, divided, and protected during financial settlement.

INSIDE THIS GUIDE

- Why pensions matter in divorce
- How to value your pension (CETV)
- Pension sharing vs offsetting vs attachment
- Getting a pension valuation
- Common pension mistakes

beckytaylormediation.co.uk · hello@beckytaylormediation.co.uk · 07891 098 369

Why Pensions Matter in Divorce

Pensions are often one of the most valuable assets in a marriage — sometimes worth more than the family home. Yet they are frequently forgotten or undervalued during divorce. Understanding how pensions work in financial settlements is essential to protecting your future.

> "For many couples, pensions are the second-largest asset after property. Ignoring them can cost you hundreds of thousands of pounds in retirement."

All pensions must be disclosed

Every pension you or your spouse has must be included in financial disclosure. This includes:

- Workplace pensions (current and previous employers)
- Private pensions and personal pensions
- Self-Invested Personal Pensions (SIPPs)
- State pension (basic and additional)
- Pensions already in payment (if retired)
- Overseas pensions

Pensions are matrimonial assets

Pensions built up during the marriage are treated as matrimonial assets and can be divided just like property or savings. Even if only one spouse has a pension, the other may have a claim to a share of it.

How to Value Your Pension: CETV Explained

To divide pensions fairly, you need to know what they are worth. The standard way to value a pension is the Cash Equivalent Transfer Value (CETV).

What is CETV?

CETV is the lump sum your pension provider would pay to transfer your pension to another scheme today. It is not the amount you will receive in retirement — it is the current capital value.

How to get a CETV

- Contact your pension provider (by phone, online, or in writing)
- Request a **Cash Equivalent Transfer Value** statement
- They must provide this **within 3 months**
- The valuation is **free** and valid for 3–6 months
- You will need CETVs for **all** your pensions

CETV may not tell the whole story

CETV is a useful starting point, but it can undervalue certain pensions — particularly final salary (defined benefit) pensions. In these cases, you may need a pension actuary to provide a more accurate valuation called a Pension on Divorce Expert (PODE) report.

When you need a pension expert

- One spouse has a **large final salary pension**
- There is a **significant age gap** (different retirement timelines)
- Pensions are the **main asset** and property is limited
- There are **complex pension arrangements** (overseas, multiple schemes)
- You are **considering offsetting** and need to compare pension value to property

Pension Sharing, Offsetting, and Attachment

There are three main ways to deal with pensions in divorce. Each has advantages and disadvantages depending on your circumstances.

Option 1: Pension Sharing Order

A Pension Sharing Order divides the pension at the time of divorce. A percentage of one person's pension is transferred into the other person's name, creating two separate pension pots.

PROS

- ✓ **Clean break:** Once the pension is shared, there are no ongoing ties
- ✓ **Security:** The receiving spouse controls their own pension fund
- ✓ **Flexibility:** Each person can manage their pension independently
- ✓ **Death protection:** If the pension holder dies, the receiving spouse still has their share

CONS

- ✗ Can be complex and expensive (legal and actuarial fees)
- ✗ May trigger tax implications
- ✗ Not all pension schemes accept sharing orders easily

Option 2: Pension Offsetting

Instead of dividing the pension, one spouse keeps the full pension and the other receives more of another asset (e.g., a larger share of the house or savings).

PROS

- ✓ **Simple:** No need to split the pension itself
- ✓ **Immediate benefit:** The other spouse gets cash or property now, not pension later
- ✓ **Avoids pension sharing costs:** No actuarial reports or pension admin fees

CONS

- ✗ Hard to compare like-for-like (is £100k of property equal to £100k pension CETV?)
- ✗ The person giving up pension loses retirement security
- ✗ Only works if there are other assets to offset against

Option 3: Pension Attachment Order (Rare)

A Pension Attachment Order (also called earmarking) directs the pension scheme to pay a percentage of the pension income to the ex-spouse when it is eventually drawn. This is rare and generally not recommended.

- The receiving spouse has **no control** — they only get payments when the pension holder retires
- Payments **stop** if the receiving spouse remarries or the pension holder dies
- **No clean break** — you remain financially linked for decades
- **Very inflexible** and creates ongoing dependency

> **Rarely used**
>
> Pension attachment is rarely used in modern divorce settlements. Pension sharing or offsetting are almost always better options.

Which option is right for you?

The best option depends on your age, pension size, other assets, and retirement goals. A financial adviser or pension actuary can help you model different scenarios. In mediation, we can explore all three options and help you decide what works best for your family.

Common Pension Mistakes to Avoid

1. **Forgetting About Pensions Entirely**

   Many people focus on the house and savings and completely overlook pensions. By the time you realise, the settlement may already be agreed. Always include pensions in financial disclosure from the start.

2. **Assuming CETV is the "Real" Value**

   CETV is a useful figure, but for final salary pensions it can significantly undervalue the pension. Get expert advice if one spouse has a generous defined benefit pension.

3. **Accepting Offsetting Without Proper Comparison**

   Swapping a £100,000 pension for £100,000 of property sounds fair, but they are not the same. Pensions grow tax-free, provide income for life, and may include spouse benefits. Get advice before agreeing to offset.

4. **Not Considering Age Differences**

   If one spouse is significantly older, they may access their pension sooner. This affects the value and fairness of any pension division.

5. **Ignoring Tax and Fees**

   Pension sharing can trigger fees from the pension provider (sometimes thousands of pounds). Factor these into your settlement negotiations.

"Pensions are too valuable to guess. Get proper valuations, consider all options, and take advice."

Need help with pension division?

Mediation can help you explore pension options in a neutral, structured way. We can work with your financial advisers and solicitors to ensure you understand the implications of each choice.

BOOK A FREE 30-MINUTE CALL

beckytaylormediation.co.uk · hello@beckytaylormediation.co.uk · 07891 098 369