About the author

Nick Bamford is a very experienced Chartered Financial Planner and was the previous Chairman of the Society of Financial Advisers (SOFA).

He is an Associate of the Personal Finance Society (APFS). In 2006 he graduated from Napier University with a BA Honours degree in Financial Services.

Nick has been an independent financial adviser since 1989. He has spent his entire working life in the financial services profession.

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About Informed Choice

Informed Choice is a leading firm of Chartered Financial Planners, working with individuals, trustees and business owners to help them to build, manage and protect their wealth.

We were named as **IFA of the Year** at the Money Marketing Financial Services Awards 2010 and we are six times winners of the Gold Standard for Independent Financial Advice. We were named **Best Retirement Adviser** at the Moneyfacts Good Advice Awards 2010.

We are a firm of Chartered Financial Planners. This means we have satisfied rigorous criteria relating to professional qualifications and ethical good practice. It means you can be confident that you are dealing with one of the UK’s leading firms that is wholly committed to providing you with the best possible advice, service and support.

To find out more about our advisory and planning services, please visit [www.icl-ifa.co.uk](http://www.icl-ifa.co.uk) or follow us on Twitter @informedchoice.
Who should read this guide?

You should read this guide if...

- You are, or are about to be, divorced and have received, or expect to receive, a Pension Sharing Order in your favour;

- You want to discover how to transfer your pension share into a pension plan that you have selected;

- You want to understand how you might make robust investment decisions with your pension share;

- You want to understand your choices and options when taking benefits from the pension plan created by the transfer of your pension share;

- You want to understand the steps you need to take to take to secure your pension share;

- You are a Family Lawyer and want to guide your divorced client, who has received a Pension Sharing Order in their favour, to make sure they make the right decisions;

- This is though only a guide and it cannot be an adequate replacement for impartial, independent advice from a qualified and experienced Chartered Financial Planner.
Introduction

We hope that you will find the answers to some of the questions you have in this guide. However, if the answers are not in here then do email us at hello@icl-ifa.co.uk and we will do our best to help you with your individual questions.

The Office for National Statistics identified that in 2011 there were 118,000 divorces in England and Wales. We do not know how many of those divorces resulted in a Pension Sharing Order being granted, but we can safely assume that probably many tens of thousands of such orders were issued by the court.

After the value of property, experience tells us that the second largest financial asset of many households is the pension fund built up by one or both of the married couple.

Leaving aside the emotional upheaval associated with divorce a key challenge faced by the couple is to sort out the financial settlement between them. Part of the challenge will be to decide what to do with any Pension Sharing Order granted.

Many people struggle to deal with the subject of pensions. After all it is full of jargon. Considered important but not necessarily urgent and simply not one of the world’s most exciting subjects, it easy to see why many people defer making the decisions they need to make.

But let me repeat, it is an important subject. Even more so where a Pension Sharing Order has been granted.

At the most extreme, we have encountered a situation where a Pension Sharing Order has not been dealt with by the recipient for over two years! We are pretty sure that if this was an order granting the recipient a cash lump sum then they would act immediately. One way of looking at the Pension Sharing Order is that it is indeed cash and that the paperwork should not be placed in the “deal with later” pile, or worse still, confined to the filing cabinet. This is after all your money and should be dealt with as soon as possible.

We hope that you find this guide useful, informative and practical. The guide does not seek to replace good quality, impartial and independent professional financial advice but we hope it makes it easier for the reader to engage with a suitable adviser.
The content is based on our extensive experience not just of divorce situations but also helping people to make good investment decisions with their pension funds and to help navigate them through the challenges of choosing the right options for them at retirement.

The guide examines what a Pension Sharing Order (PSO) is and what it looks like. It explains your choices and options in terms of the destination of any Cash Equivalent Value (CEV) to which your PSO entitles you.

The guide provides a track for you to run on as far as investing your pension plan is concerned. Making the right investment decisions is vital to ensure that you ultimately have the retirement lifestyle that you want to have.

We examine in some detail the choices and options that you have “at retirement”. Each choice has its own advantages and disadvantages and making the right decision will again impact on your future financial well being.

You do not of course have to take professional advice (although as you might expect we would strongly recommend that you do so) so we also consider the advantages and disadvantages of paying for advice rather than adopting a DIY approach.

We provide you with a checklist of steps to help ensure you deal efficiently and speedily with your PSO.

You may well find it useful to have a copy of your PSO to hand when you read this guide. If you have an existing pension arrangement it might also be helpful to have your latest benefit statement to hand as well.
What is a Pension Sharing Order?

A Pension Sharing Order (PSO) has a fuller title on the actual document- Form P1- Pension Sharing Annex under (section 24 of the Matrimonial Causes Act 1973) (paragraph 15 of schedule 5 to the Civil Partnership Act 2004). A bit of a mouthful but essentially the court has told you that you are entitled to a share of your ex-spouse’s (or ex-Civil Partners’) pension plan.

You will receive a Form P1 for each separate pension plan from which you are entitled to receive a share. A good deal of the PSO content is about identifying the people involved (The Transferor and Transferee) in the share and the details of the Pension Scheme or Plan from which the share will be provided.

In order to appreciate what follows be aware of the following;

**CEV** - the cash equivalent value which is the value of the pension plan benefits which are to be shared;

**Internal Transfer** – where the share of the CEV will remain with the pension scheme of your ex-spouse but where the benefits will then be in your name;

**External Transfer** – where the share of the CEV will be transferred to another pension plan of your choosing and again in your name.

There are two particular aspects of the PSO that we want to bring to your attention in this guide;

Part C (v) The specified percentage of the CEV to be transferred _ . _ % and:

Part F In cases where the Transferee has a choice of an internal or external transfer, if the Transferee has indicated a preference, indicate what this is.

Internal Transfer [ ] External Transfer [ ]
Your share %

You should note that your share of the pension scheme or plan CEV is always expressed in the PSO as a percentage rather than a monetary amount.

When you negotiated the financial settlement with your ex-spouse, the CEV was probably expressed as a monetary figure in order to work out a fair division of the value of all of your estate. But that CEV figure is subject to change and can be higher or lower when the transfer (Internal or External) is actually completed.

Some aspects of this can be difficult to understand. For example, the CEV may be shown in some of the earlier reporting documents as say £73,000. However, on completion the transfer to your chosen scheme you note that an amount of £68,000 has been transferred. Why might that be?

If the share is in respect of a personal pension plan it may simply be that the value of the plan has fallen. Many personal pension plans are actively invested in funds which are linked to the Stock market. If the price of shares in those funds falls between the agreement of the PSO and the transfer then the monetary amount you receive will be lower. But you will always receive the percentage shown in the PSO, it will simply be the same percentage of a smaller monetary amount.

In the case of a share in respect of a Defined Benefits, or Final Salary scheme, (where benefits are expressed as a yearly pension amount) the CEV may turn out to be lower because the assumptions used to calculate the CEV have changed.

Of course on a more optimistic note the actual transfer amount could be higher if the Stock market values or assumptions used to calculate the CEV of a defined benefits scheme have moved in your favour.

Internal or External Share

Some pension schemes cannot provide an external share transfer - these are typically defined benefits schemes and usually in the Public Sector. Some pension schemes offer a choice of “External” or “Internal” sharing and some only allow External shares to be granted.
The choice available to you should have been identified during the negotiations for any financial settlement and will certainly be mentioned in any Actuarial Report or Single Joint Expert Witness Report that you commissioned ahead of the divorce being finalised.

Some questions to ask yourself:

- Have you received your Pension Sharing Order(s)?
- What % share does the PSO confirm to you?
- Can you have an External share or Internal share?
- What pension sharing costs are due to be paid by you?
Choices and Options

What should you do with your share of your ex-spouse’s pension plan? There are a number of options available to you. If you are a current member of an employer sponsored pension scheme it may be possible for you to transfer your share to that scheme. You should ask the scheme administrator (the people who look after the scheme) if they will accept such a transfer (some do not) and what benefits you will receive if they do accept such a transfer.

You may have a private pension plan (a Personal Pension Plan (PPP), Stakeholder Pension Plan (SHP) or a Self Invested Personal Pension (SIPP)) into which you could transfer your pension share. Some private pension plan providers require that you take financial advice before they will accept such a transfer.

If you do not have a suitable existing pension plan into which your share may be transferred you will need to establish a plan to accept the transfer. Your choice will be as above, either a PPP, SHP or SIPP. What are the differences between these types of plan and which is most suitable for you?

The two areas of difference between these types of private pension plan are;

- Charges, and;
- Investment choice.

Charges

All private pension plans are subject to management charges. The challenge of course is for you to get value for money. In our experience modern pension plans should have either no significant initial charges or, at worst, only modest initial or establishment charges.

Effectively there are three parties to the provision of the private pension plan and each will charge you for their services. It is important to distinguish between charges which are levied by the pension plan provider, the investment fund managers and charges which relate to the payment for any advice that you receive.
The pension plan **product provider** usually charges a fixed monetary amount (for example a fee of £625) or a percentage of the value of your plan (for example 0.25% of the value of your plan). The product provider may have other transactional charges that are applicable for example if you change the underlying investment funds that you originally select.

The **investment fund manager** usually charges an amount expressed as a percentage of the funds that they manage for you. These annual management charges range in scale depending on whether you select what are known as “passive” investment funds (sometimes called tracker funds where a basket of shares representing an index are selected) or “active” investment funds (where the fund manager buys and sells the underlying investment assets using his/her skill and judgment).

Passive funds tend to have lower annual management charges (say up to 0.5%) whilst active funds tend to have higher management charges (say up to 1.75%). Why would you pay the higher charges? Perhaps because you simply expect that active managed funds might generate better long-term investment returns than passive funds. There is of course no reason why you might not blend the two investment approaches together.

If you engage a **financial adviser** they will also charge you for their services. It is no longer possible for the product provider to pay the financial adviser commission, so the financial adviser’s charges have to be agreed with you in advance (but these agreed fees can still be deducted from the pension plan itself) so you may receive an invoice from the financial adviser but have it paid from your pension fund.

**Investment Choice**

A further distinction between PPPs, SHPs and SIPPs is the range of investment choice available to you. There is a good degree of “crossover” between these three arrangements but it is fair to say that SHPs tend to have a limited investment choice, PPPs a greater degree of investment choice and SIPPs the widest degree of investment choice.

In the case of SIPPs not only can you invest in collective investment funds (such as insurance company funds, open ended investment companies and unit and investment trusts) but also in direct stocks and shares and even commercial property. Your choice of private pension plan will really depend upon the range of investment choice that you want, both now and in the future, and how actively involved you want to be in the investment decision making process.
Most modern pension plans allow you to view the value and performance of your pension plan online so that you can regularly monitor the way in which your pension plan is performing, make changes to the underlying investment funds, obtain detailed information about your selected investment funds and obtain illustrations of possible future benefits.

If you are eligible to and want to increase your future retirement benefits you should be able to use your selected private pension plan to “top-up” with further contributions as and when you wish to.

**Charges and Investment Choice together**

The best choice for you will be a plan that has competitive charges and a suitably wide range of investment fund choices. Of course we are biased but we would say the best way to achieve this is to obtain advice from a qualified and experienced independent financial adviser, preferably a Chartered Financial Planner.

The product provider you choose will provide you with an illustration and key features document that discloses the charges that will apply to your plan and the effect of those charges on potential future investment returns. If you take advice your financial adviser will disclose to and agree with you, in advance of any service delivery, exactly what they will charge.

**Some questions to ask yourself**

- Do you want any involvement in the investment making decisions about your PSO?
- Do you have an existing pension plan into which you might transfer your PSO?
- Do you need to establish a private pension plan into which you transfer your PSO?
- Do you need advice about transferring your PSO or are you confident and competent to do it yourself?
Six step Investment Process

Once you have decided the type of private pension plan into which you will transfer your pension share, the next decision to make is how to invest that money. You may receive advice about how to do this if you have engaged with a financial adviser.

If you have decided to transfer directly to a private pension plan provider you may receive information and possibly guidance, or you may simply be confident enough to make all of the investment decisions yourself.

Whatever you do we hope that if you do make the decisions for yourself you follow a robust investment process because experience tells us this is where the best outcomes are likely to emerge.

Step one

Always make investment decisions that are linked to your goals and objectives. When do you intend to retire and take benefits? The shorter the term until your selected retirement date the more cautious you might be about the degree of investment risk that you need to take.

How much income do you need your pension fund to generate to enable you to have the retirement lifestyle you want? Take into account any other investment assets that might generate retirement income for you as well as any other sources of retirement income (for example the State Pension). How hard does your pension fund have to work? This will dictate the degree of risk that you may need to take with your fund.

Step two

Establish your attitude towards investment risk, reward and volatility and your capacity for investment loss. Here is a special offer for readers of this guide; if you complete the Risk Profile Questionnaire that is enclosed with this guide and send that to us with your contact details and the proposed duration until your retirement we will send to you an Initial Risk Assessment report at no charge to you at all.
You will need to tell us the following information;

- Your name;
- Email address;
- Duration until your retirement age;
- The fully completed risk profile questionnaire.

Email this to nick@icl-ifa.co.uk and we will email the very detailed and comprehensive Initial Risk Assessment report back to you.

**Step three**

Once you have established a risk profile for your self the next step will be to create an investment asset class model that matches your appetite for risk and your capacity for loss.

Essentially this means deciding the percentage of your pension fund that will be held in different asset classes. How much will you keep in cash, fixed-interest securities (bonds) commercial property and equities (shares in UK and International companies).

Remember the old adage about “not keeping all your eggs in one basket?” This is what this asset class modelling seeks to do. Whilst it does not always work out this way it is generally the case that when some investment asset class values are rising (say shares) others are falling (say bonds).

Asset class modelling seeks to reduce the worst of the investment downside rather than chasing double digit returns and trying to “shoot the lights out”! In our experience most people are more comfortable with lower risk with their pension funds than an aggressive or speculative approach.

**Step four**

Just because we have created an investment asset class model at the start of the investment of your pension share it does not mean that we cannot change it in the future. As economic and investment market conditions change it makes perfect sense to rebalance and alter the original model.
We are not advocating trying to time the market but modest movements between the investment asset classes over time does make real sense particularly where it is to reduce the overall risk profile of the portfolio, perhaps by taking the steps of moving a little from equities to cash and bonds for example.

**Step five**

Now you can select the underlying investment funds to marry (excuse the pun!) up to the investment asset class model. You can do this by selecting single asset class funds for yourself or you can outsource this to a fund manager and buy a multi-asset class fund where the fund manager selects the mix.

Remember, as we said earlier, if you want a great deal of choice you might choose a SIPP as the vehicle for your pension share if you are content with just one multi-asset class fund, or a limited range of funds, you might instead choose a PPP or SHP.

**Step six**

The worst investment decisions in our experience are the ones that are made and then never reviewed. You should ensure that you have an investment review process in place. At least once a year take the time to review your pension plan and challenge the performance of the funds.

Make sure that the funds continue to remain suitable for you bearing in mind your financial planning goals and objectives and your tolerance and appetite for risk. An annual review is also a good time to “re-balance” your pension portfolio in line with your risk profile.
Some questions to ask yourself

- How would you describe your attitude towards investment risk/reward?
- What experience do you have of making investment decisions?
- Do you understand why you might need to take investment risk with your pension plan?
- How long do you need to invest your PSO until you want to take benefits?
At Retirement Choices and Options

Once you have completed the transfer of your Pension Sharing Order into a private pension plan of your choice you may then want to take the benefits from your plan.

You will have a number of choices and options and it is vitally important that you make the right decision. This is because the decisions that you make now will have a significant impact on your future financial well being.

There are a couple of “rules” of which you need to be aware;

- You have to be at least age 55 in order to start to receive the benefits from your pension plan;

- If your ex-spouse has already taken tax free cash from the pension arrangement against which you had your PSO you may not then receive a tax free cash lump sum yourself;

- Whilst we talk about “retirement” you do not actually have to retire to take the benefits from your private pension plan. You may continue to work and take pension benefits if you choose to;

- If you are entitled to take a tax free cash lump sum you may do so without having to take any pension income benefit (you may do with the tax free cash lump whatever you choose- invest it, spend it or give it away)

Taking income from your pension plan

There are two fundamental ways in which you may take income from your private pension plan. You can use the whole fund (or at least the fund that remains after you have taken any tax free cash to which you are entitled) to purchase an Annuity.

Alternatively you can keep the pension fund intact (after taking the tax free cash lump sum) and draw income from it; not surprisingly this is called Income Drawdown.
**Annuity**

There are advantages and disadvantages to purchasing an annuity. The key advantage is that the annuity will provide you with a guaranteed gross income for the rest of your life. The key disadvantage is that having handed over your pension fund to the annuity provider you may not get the best of value if you die too soon. You may not live long enough to enjoy the full value of your pension plan.

**Income Drawdown**

The main advantage of Income Drawdown is that as long as it is successfully invested the remainder of the pension plan fund, on your death, will become a benefit for the survivors you nominate.

The key disadvantage is that the income that you take from the Income Drawdown plan is not guaranteed and could be lower in the future if investment returns are poor. If you extract too much in the early years and if interest rates are lower in the future then you may get a lower pension income in the future.

Before you make a decision about how to convert your pension fund into income you need to consider what is most important for you. We hope that the following checklist of questions helps with your thinking. Score your priority 1 for high and 5 for low;

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Passing your pension fund onto your children after your death

Avoiding having to make future investment decisions and the cost of maintaining your pension fund

We will argue quite strongly that the decisions are complex and that you should seek independent, impartial advice from a qualified and experienced Chartered Financial Planner.

**State of health**

If you have a history of poor health and/or are a smoker you may well be entitled to an enhanced annuity rate (sometimes called an impaired life annuity). You should complete a medical questionnaire and have your adviser test the market to see if you can secure a higher income based on your health history or smoker status.

**Tax free cash as income**

If you are entitled to a tax free cash lump sum you should consider taking it. If you have no capital project to use that money for, you might consider spending it as income. As it is tax free you could enjoy a period of years where you pay no tax or less tax than you would if you took taxable pension income.

This also then gives you an investment target to aim at. You could spend the tax free cash over say 5 or 6 years as income and invest the reminder of the pension fund in a manner that seeks to grow it back to its starting level. We have seen this work very well for a number of clients.

**Phased retirement**

You do not have to take all of the benefits at the same time. You can phase the payment of the benefits over a period of years. You might consider doing this if you want some of your pension fund to continue to be invested and perhaps defer the purchase of an annuity, on some of your pension fund, until annuity rates hopefully improve in the future.
Other income choices

Other choices are effectively variations of, or a combination of, Annuity purchase or Income Drawdown for example you might purchase a Temporary Annuity (say one that pays for 10 years rather than lifetime) with the balance of the fund remaining invested in Income Drawdown. Sometimes the Income Drawdown fund associated with these types of plans has an element of capital guarantee.

We refer to these latter arrangements as "3rd Way Plans" with Annuity and Income Drawdown representing the 1st and 2nd ways.
Advice or no advice

You do not have to seek or take financial advice in respect of your PSO unless you wish to do so. You may have the time, inclination and expertise to do-it-yourself. You may decide that having incurred a good deal of cost in finalising your divorce that you can save some money by “cutting out the middleman”.

This may however be a false economy. Not only will a competent adviser recommend the most appropriate course of action for you but they will also remove the hassle of dealing with the transfer from the ceding scheme to the pension arrangement that will accept the share. This is often not a simple process and sometimes requires a good deal of chasing and administrative follow up.

In addition your adviser will guide you through the investment process and ensure that the recommended investment funds for your pension plan are most suitable for you. They will also provide technical support along the way advising you about the most effective way of building a bigger pension fund and identifying the likely benefits that are going to emerge from your pension fund.

Your adviser may well offer an on-going service in the form of a review. Often this will involve much more than simply a review of the investment funds but also helping you to consider a number of aspects of your financial planning.

Advice is particularly important when it comes down to the decisions you need to make about taking the benefits from your pension plan. Making the wrong decision at retirement could result in a very significant cost to you. In fact the wrong at retirement decision could cost a multiple of the fees that an adviser might charge you.

Doing-it-yourself also means that you do not get the full protection of the UK regulatory regime for example your ability to complain to the Financial Ombudsman or full protection under the Financial Services Compensation Scheme.

The following highlights the range of things that an adviser might be able to do for you and as you can see it goes beyond the initial advice and implementation around your PSO.
What do advisers do for our clients?

- We save them time;
- We cut through the jargon;
- We give them a clear understanding of their choices and options;
- We give them a figure or target to work towards;
- If they set their own figure or target we will validate that for them;
- We act as a second opinion and save them from making costly mistakes;
What about the future?

As well as making a good decision about what to do with your PSO you might also want to consider your future financial planning. Ask yourself the following questions:

- When will I be able to afford to retire?
- Will there be a time in my life when I run out of money?
- Am I taking too much (or too little) risk with my investments?
- What will happen to my family finances if I am unable to work?
- Can I afford to privately educate my children or put them through University?
- How much inheritance tax will my children and grandchildren have to pay?

Experience tells us that many people do not know the answers to these questions. However, they do appreciate the importance of getting the answers.

Talk to us about any aspect of your future financial planning.
A Pension Sharing Order Checklist

- Do you have a PSO sealed by the Court?
- Are you entitled to an External Share?
- Have you paid any pension sharing charges due under the PSO?
- Do you have an existing pension plan into which your PSO share may be transferred?
- Do you need to establish a private pension plan into which you will transfer your share?
- Do you need to seek independent financial advice about how to transfer your share?
- Have you received an illustration from your chosen provider and understood the charges that apply?
- Have you established your attitude towards investment risk reward and volatility and your capacity for Investment loss?
- Have you decided what split across investment asset classes is suitable for you?
- Have you completed the application form of your chosen pension provider and provided them with a copy of the PSO?
- Have you provided the ceding pension scheme (the one from where the PSO monies are coming) with what ever discharge paperwork they require?
- Have you provided the ceding scheme and the selected pension scheme provider to who the transfer is going with your birth certificate as evidence of age?
- Have you completed the application form and applied for the benefits that you require from your pension plan?
Summary

I hope you have found this guide helpful.

If you are considering what to do with your Pension Sharing Order then do feel free to contact us.

Please call Nick on 01483 274566 or email him at nick@icl-ifa.co.uk with any questions, or to arrange a meeting.

We offer an initial meeting which is at our expense and without any obligation, either here at our offices in Cranleigh or at your home.