Scrumping the crop of recent pension decisions

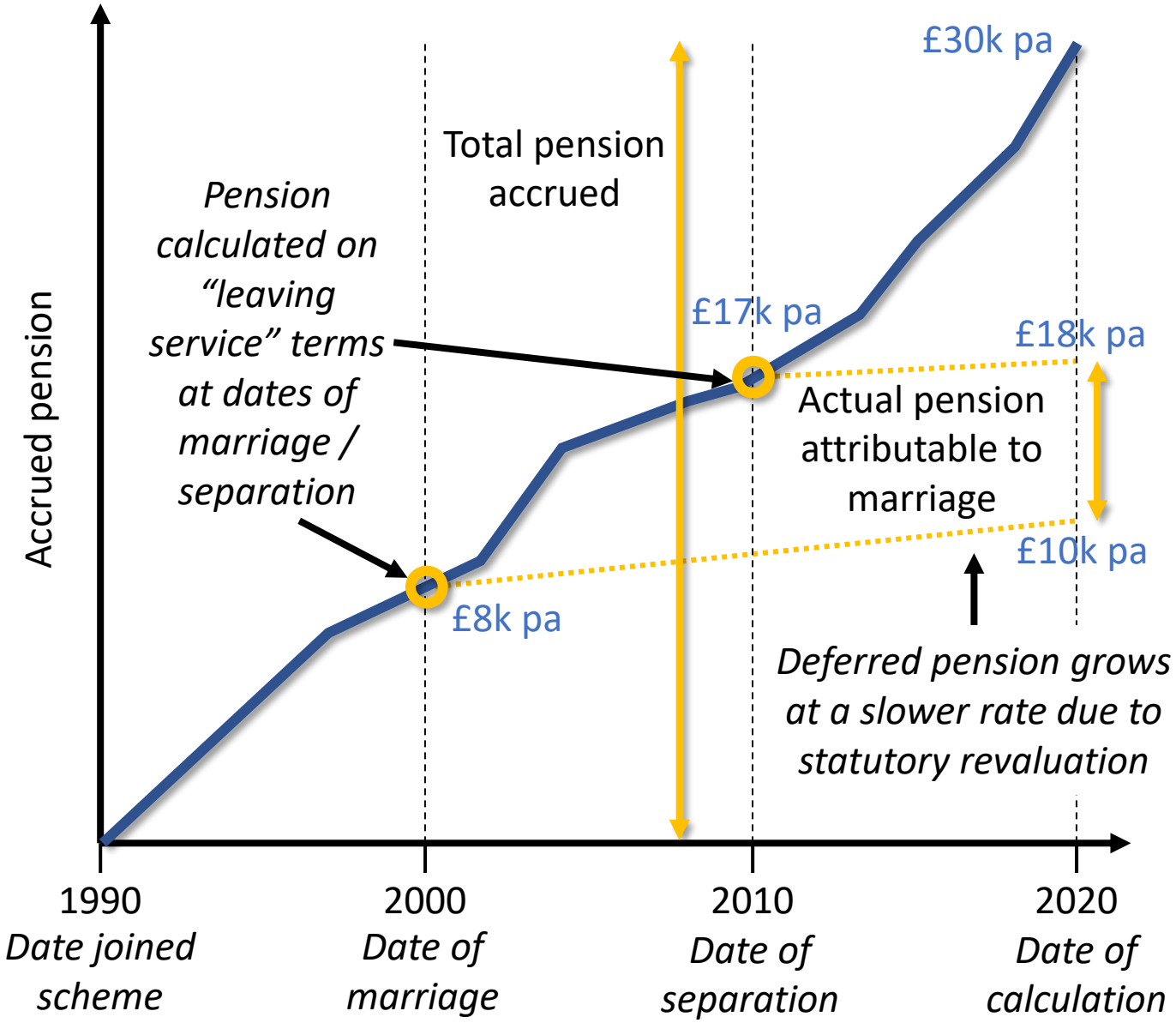
George Mathieson (with credit to Rhys Taylor and Jonathan Galbraith)

The Cases

- *W v H (Divorce financial remedies)* [2020] EWFC B10,
  (First instance HHJ Hess) (Apportionment / Ring-fencing & LTA & Annuity purchase)

- *KM v CV (Pension Apportionment: Needs)* [2020] EWFC B22 (On appeal to HHJ Robinson) (Apportionment / Ring-fencing)

- *RH v SV (Pension Apportionment: Reasons)* [2020] EWFC B23. (On appeal to HHJ Robinson) (Offsetting & LTA)



'Deferred pension' method

More complex method that determines the deferred pension amounts attributable to the marital period as a proportion of the total

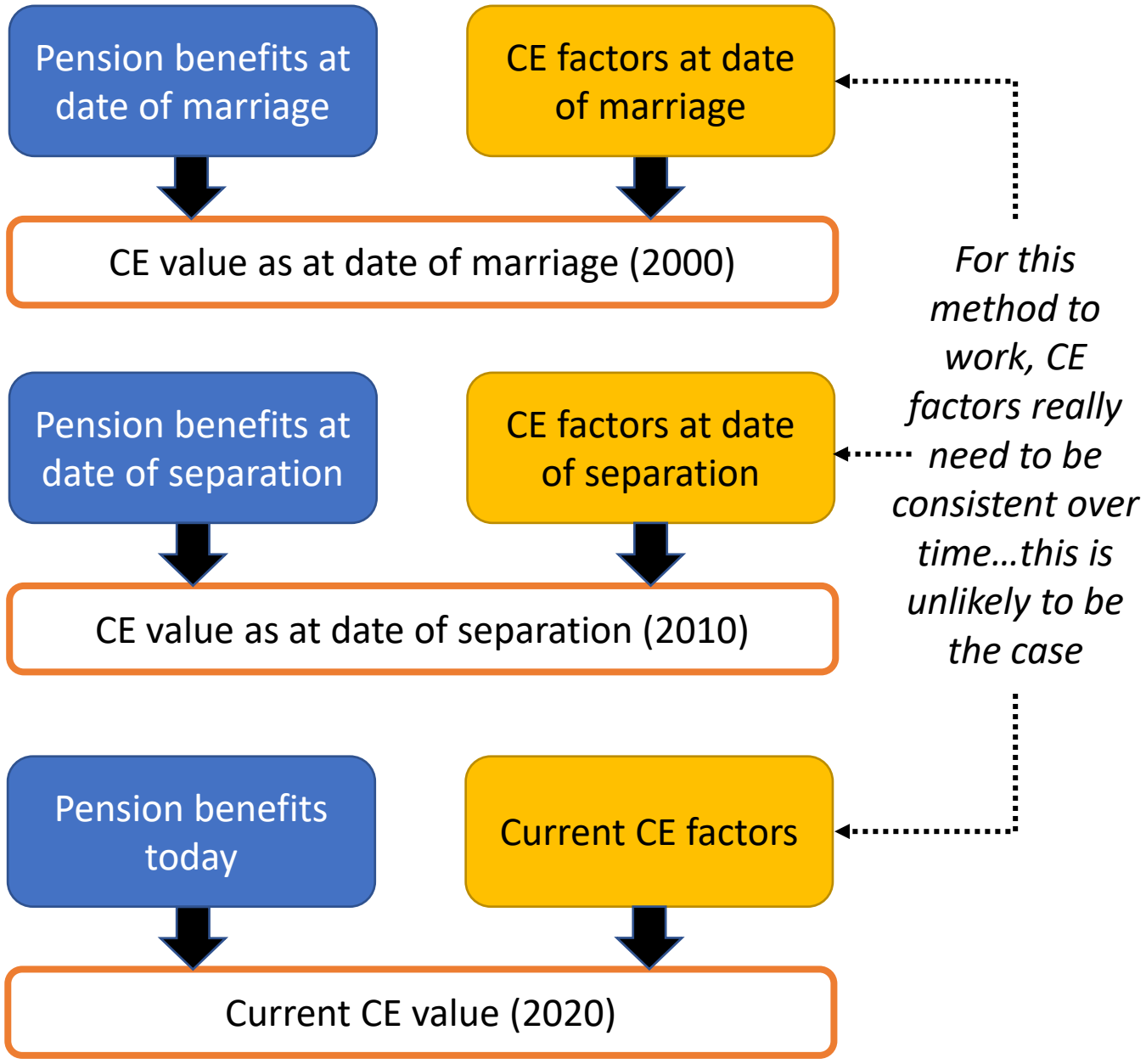
i.e. £18k – £10k = £8k pa (of total £30k pa)

Theoretically more "accurate"…but relies upon historic salary data that may not be readily available

Especially true for pensions in payment where accrual data may have been archived

Allows for what some practitioners call "passive growth" i.e. revaluation but not the future salary increases

Expected to give better result for pension debit member i.e. the scheme member



Cash Equivalent (CE) method

Calculation made using a comparison of CE values at date of marriage, date of separation and today

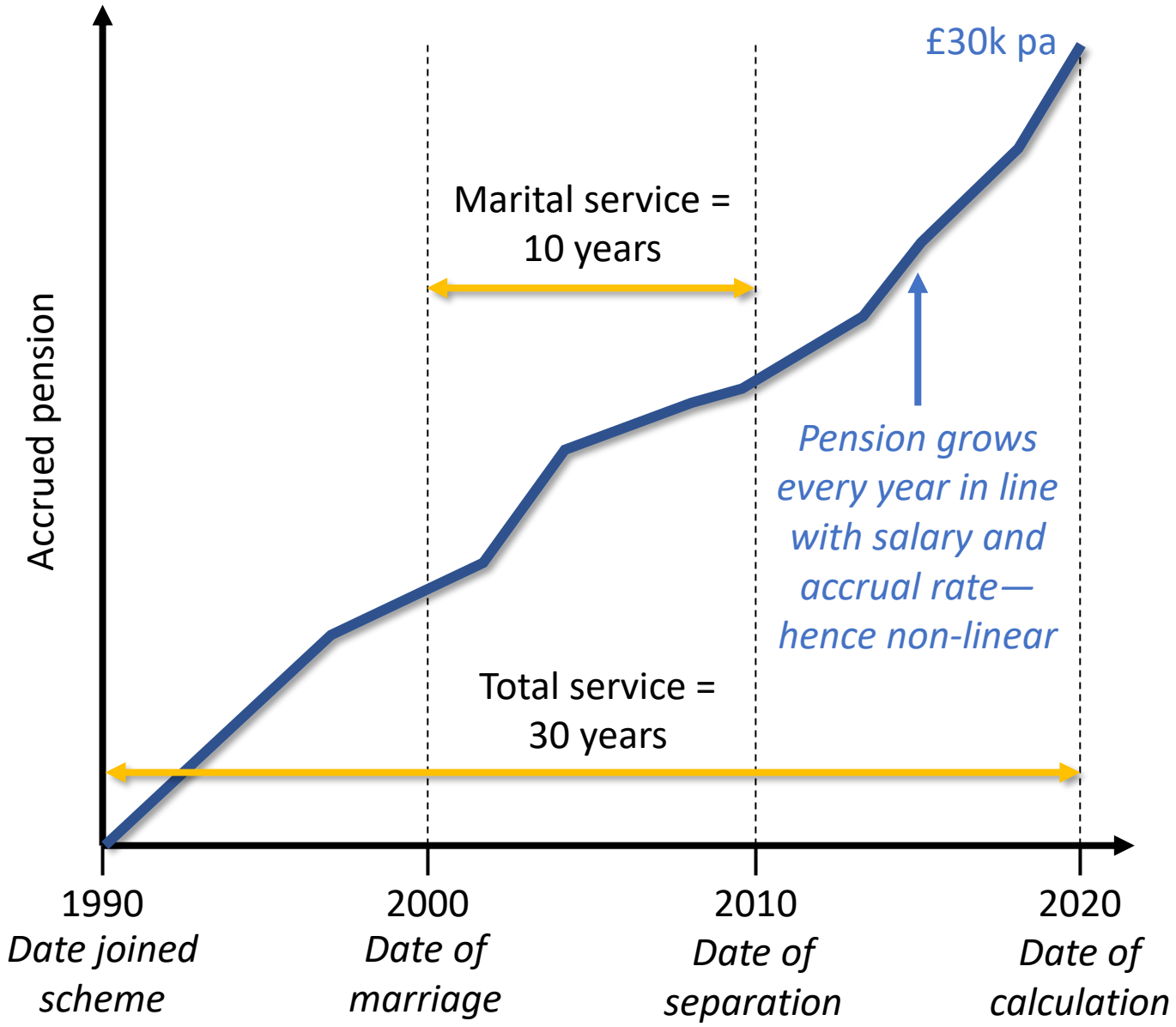
CEs are provided by the pension scheme and thus seen as a reliable, "independent" valuation of the benefits

Relies upon CE values being a consistent measure of benefits…but CE factors will change over time on account of market conditions and scheme actuary's views on funding / security

Hence CE values change for reasons other than benefit accrual

Further, historic CE values not always readily available

Also relies on being able to construct pension amounts at earlier dates (as per DP method)



Straight line method

Simple ratio of marital years of service to total service
Takes no account of rate at which pension was accrued nor salary growth over this period

i.e. 10 ÷ 30 × £30k pa = £10k pa

Method used in Scotland (where apportionment always performed)
Easiest to calculate as simply need service history
Apply equally to attaching lump sums etc
Part-time service requires a bit more effort

Expected to give a better result for the pension credit member i.e. the ex-spouse

Tips when instructing an expert

- **Be as clear as possible in what is required when drafting LoI**
- As per PAG, if short marriage / needs case then calculations may not be necessary
- Specify in advance if apportionment arguments to be considered as additional data need be gathered (service history, PT hours etc)
- Agree in advance dates of cohabitation / separation to minimise number of calculations to be performed
- Accept that this is not an exact science and the expert may be reliant upon incomplete data: we do the best that we can!

LTA Defined Benefit v Defined Contribution

- H Pension pre PSO: £70,000 pa
- CEV pre PSO: £2,800,000

- Assume PSO of 50% gives equality of income.

- H pension post PSO: £35,000 pa (value for LTA purposes, £700,000)
- W Pension fund post PSO (also producing income of £35,000 pa) £1,400,000

Why PODES assume annuity purchase, when H has DB benefits

- Defined Benefit pension:
  - Investment risk? No
  - Index Linked? Yes
  - Guaranteed for life irrespective of how long member lives? Yes
- Drawdown:
  - Investment risk? Yes
  - Index Linked? Not guaranteed
  - Guaranteed for life irrespective of how long member lives? No

Offsetting

- Offsetting Only Report now available:

  - Lower fees
  - Quicker turn around
  - Prescriptive Letter of Instruction which MCL provides.

Mathieson Consulting Ltd

- 5 Actuaries, all experts in this field, including Kate Routledge and Jonathan Galbraith
- 9 Report writers in total
- 9 Admin staff
- 15 – 20 reports per week.
- Can turn reports around within 4 weeks of having all information. (Instruction received in September 2020, report issued in September 2020)