Why do pension funds snub her £25,000?

Maisha Frost finds a solution to the problem of a divorce payout

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CASH CHAOS: Sorting out finances after a divorce settlement can take months

The problem

HEALTH worker Jenny N has been left with a pension problem following her divorce. As part of her settlement, Jenny, 45, will receive a 10 per cent share — worth about £25,000 — of her former husband's final-salary scheme.

But her attempts to maximise its value by transferring the funds into her own existing pension plans have failed. "I've been turned down flat," she says. "I've no dependants, I'm currently earning £21,000 a year but intend to work for myself at some point.

"Because of that I have been considering opening a personal pension for a while now. Should I put the £25,000 into that?

"I'm also keen to know why my other pension schemes refused this extra money. Can I appeal and, if not, what is the best course of action? Can you suggest an alternative pension scheme that will safeguard my money?"

The solution

DIVORCE pension payouts are never straightforward and although Jenny has avoided any wrangles relating to the amount she will receive, she still faces a lot of paperwork to get the matter settled.

This will take at least three months and she will have to make sure the process does not stall.

Jenny was unable to transfer her £25,000 from the divorce settlement (known as a sharing order) into a final-salary scheme that she is in with a previous employer. "This is because when you have left service, you cannot add to any pension plan you had with that employer. That's the rule," explains pensions expert Nicola Downs.

Jenny has now joined the pension scheme of her current employer, the NHS, and tried to switch the funds into that, but this was also refused.

"It is always up to a scheme's trustees to decide what they will or won't allow," says Downs. "The transfer would have added years to the plan, which are linked to the final salary. Jenny's wage will also increase. Given those factors, the trustees most likely considered this created too large a liability."

Jenny's £25,000 is pension money, so she cannot convert it into a cash sum. Her only option, therefore, is to invest it in another pension — which leaves her with the option of either a personal or stakeholder plan.

"The amount isn't large and would not justify the higher charges of a personal pension, so it has to be a stakeholder contract," Downs advises.

When she has opened the pension, Jenny will have to apply for discharge papers from the trustees of her former husband's scheme, then ensure the transfer of the correct sum is carried out, and get confirmation that the funds have been transferred to her new scheme.

"It's not as simple as it sounds," warns Downs. "Transfers get delayed, mistakes are made over the figures — Jenny will have to remain vigilant at every stage of the process. It is a tough job for a paid adviser. But it's far harder for people in this situation, usually women, who — because they are dealing with smaller sums — have to do the legwork themselves. Added to that, they are often not in the best frame of mind either, coming fresh from a divorce."

Looming large is the question of which stakeholder plan Jenny should go for. The relatively modest amount involved means this is also something savers would normally have to do for themselves.

For a woman of similar age in Jenny's situation, Downs recommends she considers Aegon's stakeholder and in particular the Lifestyle plan, the version which takes a cautious investment approach.

Jenny's decision to invest for her old age is sensible but she has limited financial knowledge and not much cash to commit — factors that will affect the contract which best suits her needs. "She wants something that will hold up in the long term, as well as a plan that is low on risk and managed on her behalf as she will not want to do that herself," explains Downs.

She picked out the plan from Aegon because of the number of funds it offers, 80, which is high for a stakeholder, allowing for plenty of diversity.

It also permits 20 switches a year free of charge, so Jenny has the freedom to move out of loss-making funds and take advantage of the better performers, if necessary.

This Lifestyle plan, which offers a mix of cash, fixed interest, equity and bond investments, also has other benefits. While she is still employed and contributing elsewhere, Jenny will probably choose to leave the stakeholder to grow. But should she work for herself eventually, it will allow her to add to it. She can put in the equivalent of 100 per cent of earnings, minus any other pension contributions.

As Jenny approaches retirement her funds will be moved accordingly to lower-risk options, protecting her pension pot at the time when she will be least able to afford a loss in value. "This will be done automatically, so it's taken care of for her. Many standard stakeholders do not offer this," says Downs. Charges for this scheme start at 1.5 per cent a year, dropping to 1 per cent after a decade.

Like stakeholders from all pension companies, Aegon's has lost value in the past year. "But this is a long-term commitment," stresses Downs. "Jenny has time on her side and given the limited options available to her this is the best course."

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