Pensions and Divorce: what do we know, and what future research is needed?: A PPI Round Table

The Pensions Policy Institute (PPI) hosted a round table on Thursday 1 July 2021 for MICRA to present the results of exploratory analysis of quantitative data on the impact of divorce on pensions wealth and outcomes for divorced people. The research was jointly sponsored by the PPI and the University of Manchester through the Manchester Institute for Collaborative Research on Ageing (MICRA).

Chair's welcome

Fiona Tait, Technical Director at Intelligent Pensions and a PPI governor, chaired the round table. She welcomed everyone to the event, outlined the role of the Pensions Policy Institute, then went on to introduce the researchers to present their results.

Dr Jennifer Buckley is **Research Associate at the Cathie Marsh Institute at the University of Manchester**
Professor Debora Price is **Professor of Social Gerontology at the Manchester Institute for Collaborative Research on Ageing at the University of Manchester**

Presentation of the findings of the research

Debora set the scene around pensions and divorce: we are now 20 years on from the Welfare Reform and Pensions act which permitted pension sharing on divorce. This was seen as a way to address the issue of around half of older divorced women living in poverty. It was hoped that pension sharing could address this and that such sharing would become the norm, however only one in twenty divorces result in a pension share.

Debora explained the reasons why pension sharing has not taken off so much in terms of the four Cs:
- Complexity, that pensions are very complex and difficult.
- Conflict, that pensions can be a source of conflict between divorcing couples.
- Cost, that the experts required to advise and work out the value of the pensions are very expensive.
- Cultural, that there are very strong cultural factors working against pension shares among divorcing couples, lawyers, advisers, and judges.

It was explained that the existing data from previous research has shown that women tend to fare worse after divorce, as a result of wealth gaps within the marriage. This was exemplified by the statistic that women over 45 who divorce are three times more likely to be in poverty after State Pension age all else being equal. Debora then handed over to Jennifer to take us through the current research.

Jennifer then presented the results from the data analysis. The data used for the analysis is the Wealth and Assets Survey which was considered a better option than other surveys because it contains data on pension wealth and other assets, couples can be linked, and followed through the data over time, allowing the identification of divorces and the impact arising from those divorces.

The data presented by Jennifer showed a significantly lower level of pension wealth held by women when compared to men all ages, this disparity was also observed at all levels of household income and pension wealth with high disparity in the highest income quintile. She presented data on the pension wealth by marital status and sex; the data showed that married men have higher median pension wealth, whereas divorced women who do not re-partner do considerably less well, generally having the lowest pension wealth.

Jennifer presented data results that showed that within a married couple, the wealth is unevenly distributed, that in more than half of couples one person has more than 90% of the combined pension wealth for that couple. Further data showed that this was a pattern across the wealth distribution and is more prevalent in lower wealth couples. In a mixed sex couple this is almost always the man who has the larger share.

It was noted that property wealth is sometimes used as a balancing item with pension wealth in divorce negotiation, but Jennifer demonstrated that the pension wealth significantly exceeds property wealth for many couples, particularly those with above average household pension wealth especially outside of London and the South-East.

Jennifer then set out possible future research, including considering the current limitations of data, the possibility of using life-course modelling to examine pension outcomes, and understanding the cause and nature of disparities within couples and how those change throughout the population.

Comment on the findings by the PPI

Fiona Tait then introduced Sarah Luheshi, Deputy Director of the PPI, to comment on the findings.

Sarah spoke about why the research matters, she pointed to the "divorced gap"; that the work shows that divorced women have low levels of pension wealth compared to other demographics, and that because outgoings for a single person aren't simply half of that of a couple, a divorced person requires around two-thirds, of the income of a couple. This means single people are at more risk of failing to attain a target retirement income standard than a couple, and more so if pension wealth is not considered in a divorce settlement.

Sarah then considered what the research means for pension policy. She noted that the interaction of pensions and divorce is complicated, and that to gain an understanding of the various impacts it is important to review data such as this. She highlighted elements of the analysis that Jennifer had presented including the inequality of pension wealth within couples. We can conclude from the analysis that after divorce, women are not any better off than other women and this could indicate pensions are not being shared to any great extent during divorce settlements.

She then considered where we go from here, noting the need for further research to understand more of the interactions, and to understand who are getting financial settlements and whether/or why those who are most in need of obtaining a fair financial settlement do or do not get one.

In regards to pensions policy areas, Sarah contemplated whether the existing pensions advice allowance could be used to help employees gain some advice so as to understand the implications of pensions on divorce.

Question and answer session

Fiona Tait then opened up the floor to questions and discussion from the audience, this portion of the meeting was held under the Chatham House Rule. Topics discussed in the question and answer session included:
- How to balance emotional issues when negotiating a divorce settlement and whether attempts to reduce conflict lead to pension sharing being avoided.
- Whether there are socioeconomic factors that impact the rates of divorce and the resilience of women following a divorce.
- Whether the solution is to come from the legal sector or the pensions industry.
- There was discussion of how the shift from Defined Benefit to Defined Contribution might affect the issue, whether it makes it easier to calculate the pension wealth.
- Whether a divorce settlement should have consideration of the future burdens of childcare etc on the ability to save for a pension.

- The extent to which the reduction of home ownership among young people might change the asset mix at retirement and the resulting relative importance of pension wealth in a settlement.

Closing remarks

Fiona Tait then invited the speakers to make closing remarks and closed the meeting.