Navigating divorce: wealth planning for a new chapter

"Half of all marriages end in divorce, and then there are the really unhappy ones."

With this pithy pronouncement, the late comedian Joan Rivers presented a rather bleak view of matrimony. But while the comment was played for laughs, and of course many couples are fortunate enough to enjoy happy and long-lasting marriages, it is important to acknowledge that divorce is also extremely common.

As trusted wealth advisers, we travel alongside our customers on the various stages of life's journeys, including marriage and divorce. This can be a truly bewildering and exhausting time, inducing a whole spectrum of emotions and outcomes. We also believe it is a period in which taking good advice is utterly essential.

Below, we outline some of our top tips for customers facing the daunting upheaval that comes with the end of a marriage.

1. Educate yourself

We believe that a good adviser should provide you with the information and tools necessary to help you understand and take control of your situation, rather than simply making decisions for you.

Indeed, we think it is critical for our customers to understand their own financial position. If you've never had any experience in directly managing your assets, or of dealing with wealth planning or financial markets, this is a great time to improve your understanding of these topics. Even if you were in charge of or heavily involved in these areas during your marriage, a change of circumstances often necessitates new learning.

You don't need to become a financial expert (that's what your adviser is for!), but it can be helpful to devote sufficient time to gaining an understanding of broad concepts of areas like risk, inflation, and how tax planning works. It's important to note that in financial markets (as in life), no true gains are possible without risk. However, we want our customers to understand the potential risks involved in their decisions, and to feel comfortable with the level of risk they choose as part of a plan to meet their long-term financial needs. Similarly, an understanding of how inflation and tax planning can impact your financial journey will be key to making sustainable plans for the future.

2. Be realistic, and consider compromise

> “The end of a marriage represents a time of huge change. The longer-term financial outcome for those involved can depend heavily on the advice taken, and not only from a legal perspective.”

Be transparent. It is a requirement that all assets are disclosed, and any attempt to hide assets will only hinder the process. It is important to accept that all wealth is joint property, regardless of whose name the account is in, and this includes both workplace and personal pensions on both sides.

The legal process aims to achieve a fair distribution of assets between couples, but it is still necessary to be realistic at the outset. An acrimonious and lengthy process is likely to be more costly, so compromise is often the better solution, and should serve to keep legal costs to a minimum.

When it comes to investments and pension arrangements, we would advise being pragmatic about who should have which assets. For those with higher value pensions, it could benefit both parties to look at how these could be divided carefully, perhaps in ways which are not immediately obvious. There are potential gains to be made from smart tax planning in this area, provided you receive sound financial advice.

Taking a relatively simple approach to dividing the value of both occupational and personal pensions is one option, but you should also consider any additional costs that could be involved in this process. An alternative approach to dividing these types of assets could be to use the ‘offset’ approach, where one party takes the investment portfolio and the other keeps a pension of similar value. However, tax implications also need to be considered – again, good financial advice could prove to be critical.

3. Think carefully about the family home

For many, the major asset will be the family home. Naturally, though often unhelpfully, this asset usually holds huge emotional value too. Every situation is different, and legal advisers must take the lead on this topic. However, from a wealth management perspective, we note that quite apart from stopping people from moving forward legally and emotionally, the family home can also be the sticking point that hinders wider resolution on finances.

We would suggest being realistic as to whether or not the family home should be sold. We would caution against trying to hold onto the family home at all costs, but it could also be the case that making an automatic decision to sell the property is not the right move for your circumstances. Key points of consideration could be whether or not both parties can acquire individual suitable properties using their portion of the sale proceeds – it could be the case that only one party would qualify for a mortgage alone. Talk to a mortgage adviser to gain an understanding of your position with regard to future borrowing – it is always better to be informed before finalising negotiations.

One alternative – perhaps most relevant for those with dependents at home – might be to retain the property, with the non-resident party continuing to contribute towards the mortgage, and continuing to benefit from any increase in the property value. This could necessitate the non-resident person renting a home in the shorter term, the costs and challenges of which could also be taken into account during negotiations. Any such financial agreement on the family home could include a date by which both parties agree that the property is to be sold (for example, when children leave home). This may be a better option in the long run, with both parties still benefiting from the asset’s potential increase in value over time. However, this scenario would not allow for a quick, clean break, which can be an important objective when going through a divorce.

4. Review your plans for the worst case scenarios

We are strong proponents of making and regularly reviewing wills. Many people do not realise that wills are effectively invalidated by divorce – should the worst happen following your divorce, you could be classed as intestate if you have not updated your will, even if your wishes have not changed a great deal since the previous iteration. Consequently, once your divorce is completed, we would urge you to make a new will, ensuring that your estate will be distributed according to your wishes.

Any insurance policies, including ‘death in service’ benefits offered by your employer, as well as any occupational or personal pension benefits, will also need a review. You will likely wish to update your nominated beneficiaries – this process is entirely separate to renewing your will, and should not be overlooked.

5. Above all, take good advice

The emotional effects of a divorce can be many and varied. From a financial point of view, we hear from many customers who are concerned that their long-term finances will be shattered by the end of their marriage, and that they will not be able to bring their financial plans back on track.

It's important to note that this is not necessarily the case at all. However, the end of a marriage represents a time of huge change, and the longer-term financial outcome for those involved can depend heavily on the advice taken, and not only from a legal perspective. We firmly believe that divorce represents one of the most important times in your life for obtaining impartial financial advice, especially when it comes to pensions, borrowing, and investments.

We are privileged to be able to support our customers throughout the diverse phases of their lives, which sometimes includes offering financial advice during and following the painful and complicated process of divorce. If you would like financial advice in this area, or any other, please do get in touch.

Christine Ross
Head of Private Office (North) & Client Director