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Talking Finances

5 **key financial planning steps** to consider during a divorce

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6 January 2025 was "divorce day" – so-called because solicitors reportedly see a marked increase in the number of couples filing for separation on the first working Monday of the year.

This could be because couples spend more time at home together over the Christmas period, potentially highlighting difficulties in the marriage. Additionally, many people are looking for a fresh start at the beginning of a new year, so they may decide to file for separation in January.

Going through a divorce can be incredibly emotionally challenging, but it may also represent the beginning of a new phase of your life.

When starting a new chapter, it's important to consider your financial plan, review your goals, and prepare for any challenges you might face in the future. This could be especially true during a divorce as the process and aftermath of a separation might significantly affect your financial position.

According to Legal & General:

- 31% of women and 21% of men face financial struggles after a divorce
- Women could see their income fall by 33% after a divorce
- Men could see their income fall by 18% after a divorce
- 16% of women and 10% of men worry about the effect of a divorce on their retirement.

These financial hurdles can cause additional stress during an already difficult time.

Fortunately, with our help, you may be able to mitigate some of these challenges after a separation and continue working towards your financial goals.

This guide will outline five key financial planning considerations during a divorce.

1. Take stock of your financial situation

When you separate, one of your priorities may be to ensure that you receive a fair share of assets on divorce. Doing so could help you to look ahead and begin working towards your goals. As such, you might find it helpful to take stock of your financial situation and assess your marital assets at the beginning of the divorce process.

Here are the important steps you may need to take.

Create a list of assets and gather important paperwork

Listing your assets and collecting important financial paperwork could speed up the process of dividing your estate.

Additionally, having all the relevant information makes it harder for your ex-partner to conceal their wealth, meaning you're more likely to receive your fair share.

You may need to gather information on your:

- Bank accounts
- Credit cards
- Pensions
- Investments
- Mortgages
- Other personal loans
- Protection policies.

If you're unclear about the value of any of your assets, we can help you review your current position and make sure you don't miss anything important.

DID YOU KNOW?

According to *IFA Magazine*, 25% of individuals who went through a divorce in the past 10 years hid wealth from their partner. Men were more likely to do this, with 33% concealing assets, compared with 15% of women.

Undertake the "disassociation process"

After your divorce, you may need to take out a mortgage to purchase a new home. You might also borrow for other reasons, such as to buy a new car.

Your credit score could affect how much you're able to borrow. So, it's important to consider how your financial relationship with your ex-partner could influence your rating.

For instance, if they fail to make payments on joint loans and credit cards, this could negatively affect your credit. You may have cosigned loans for your ex-partner too, meaning you are liable for the repayments if they can't make them.

Additionally, your ex-partner may have details for your personal bank accounts saved on their computer or phone. Any accidental, or even malicious payments could harm your creditworthiness.

As such, you may want to financially disassociate yourself from your ex-partner as early as possible during the divorce process. You can do this by:

- Closing joint accounts and cancelling joint credit cards
- Asking your ex-partner to refinance any loans that you cosigned
- Refinancing or selling your home
- Changing the details on your personal accounts.

Once you have separated your finances from your ex-partner, you may want to monitor your credit score regularly and take steps to improve it, if necessary.

Consider your own financial goals

While you were in a relationship, you may have had joint goals with your ex-partner. Now that you are separating, you might share some of these priorities but also have wants and needs of your own.

Consequently, your financial plan could look very different once you're outside of your marriage or civil partnership and you may want to review your goals.

Review your budget

After a divorce, your household income and expenses will likely change. If your ex-partner was contributing to household finances – mortgage payments and utility bills, for example – you may need to adjust to paying certain expenses on your own.

Managing these extra costs can be challenging. According to the *Guardian*, single people spend as much as £10,000 a year more than they would if they were part of a couple.

We can work with you to review your budget and meet your short-term financial obligations. We'll also consider your new goals and explore ways to help you contribute to savings and investments for the future, so you can achieve your dream lifestyle.

If you follow these steps to review your current situation, you may find it easier to maintain financial stability, reduce the effects of the divorce, and work towards your goals.

DID YOU KNOW?

You can claim a 25% discount on your Council Tax if you live alone or everybody else in your home is "disregarded".

Disregarded individuals include:

- Children under the age of 18
- Individuals aged 18 or 19 who are at, or have just left school
- Individuals with a severe mental impairment
- Individuals caring for a disabled person who is not a partner or child under the age of 18.

2. Make important decisions about your living situation

Your home is likely one of your largest marital assets, and making living arrangements post-separation may be an important priority. That's why deciding what to do with the family home and where you will live may be one of the most significant choices you'll make during the divorce process.

If you and your spouse rent a home, then deciding not to renew your tenancy when it ends and move out may be relatively straightforward.

However, if you own a home, you may have to consider how to proceed in this scenario.

If you and your ex-partner have a mortgage in joint names, you'll need to continue making the monthly payments until you reach an agreement about what you will do with the property.

There are several options you might consider.

Sell the property

Selling the property and splitting the proceeds is perhaps the most straightforward choice. It allows you to pay off the remainder of the mortgage and release any equity in your home. You may then use these funds to purchase a new property for yourself.

However, you might have children who would prefer to stay in the home, or one of you may feel strongly about not moving. In this case, you may need to consider other options.

One person buys the other out

If one of you wants to stay in the home, you could consider transferring the mortgage into one name at the same time one partner buys the other's share.

To do this, the person whose name remains on the mortgage will need to prove to a lender that they can afford the repayments on their own. Remember that a bank or building society is not obliged to transfer the mortgage into one name.

You'll normally need to get the property valued to determine how much equity is in your home, and how you divide the asset.

Seeking specialist advice can add value if you're looking to take on a mortgage by yourself.

What happens if you are in negative equity?

If you are in negative equity, this means the value of your home is less than the borrowing secured on it, and selling it would not raise enough to pay off the mortgage.

In this situation, you may need to consider whether selling is the right choice.

If you do sell the property, you will retain some mortgage debt. You and your ex-partner must decide how to share this debt during the settlement.

One person stays in the home with no change of ownership

In some cases, one person could stay in the home while you both continue to own it. This is more common in couples with children, and you may create a "Mesher order" which prohibits the sale of the home until a certain time – when your children turn 18, for example.

Bear in mind that this means you and your ex-partner will still be financially linked to some extent after the divorce.

Include the home in the settlement

You may also decide to include your home in the divorce settlement. This typically means one person keeps the property while the other receives separate marital assets of equal value.

Alternatively, one party may maintain a stake in the home and be entitled to a percentage share of any proceeds when the property is sold.

Each of these options has benefits and drawbacks, so you may want to seek professional guidance when deciding how to split property during a divorce. This could help you ensure you choose the most suitable option for your unique situation.

What if I am not named on the title deed of the property?

If you bought the property since you married, it will usually be considered a joint asset. Consequently, you should still have some claim to the property even if your name is not on the deeds.

However, if your ex-spouse bought your home before you married, it's less likely you will have any claim over the property.

Either way, specialist legal advice can help you to establish whether you do have a claim, and what split might be appropriate.

3. Consider how you will plan for retirement after the divorce

Reviewing your budget, and making decisions about your living situation, are important because a divorce could have a significant effect on your finances in the short term. However, the separation could be equally disruptive to your long-term goals, especially your retirement.

Fortunately, if you factor your retirement plans in during the divorce, you may be more likely to achieve your dream lifestyle in the future.

Decide how you will split your pensions

When deciding how to split your wealth during a divorce, it's crucial that you don't overlook your pensions, as these are often the largest marital assets aside from the family home.

Yet, *PensionsAge* reports that 75% of divorced women and 56% of divorced men didn't discuss pensions during their divorce proceedings.

If your ex-partner earned more than you, and contributed a higher amount to their pension, their retirement pot could be significantly larger than yours. In this situation, you may have been relying on your partner's pension savings to fund your retirement, to some extent.

As such, if you don't split pensions equally, you could face a shortfall in later life and may have to make sacrifices to your lifestyle.

This is more likely to affect women because of the "gender pensions gap". Indeed, research from Scottish Widows reveals that women who don't discuss pensions during divorce could be an average of £77,000 worse off in retirement than they would have been if they split pension savings equally with their ex-partner.

These figures are based on projections of the average amount that men and women are expected to have in defined contribution (DC) pensions when they retire.

What is the gender pensions gap?

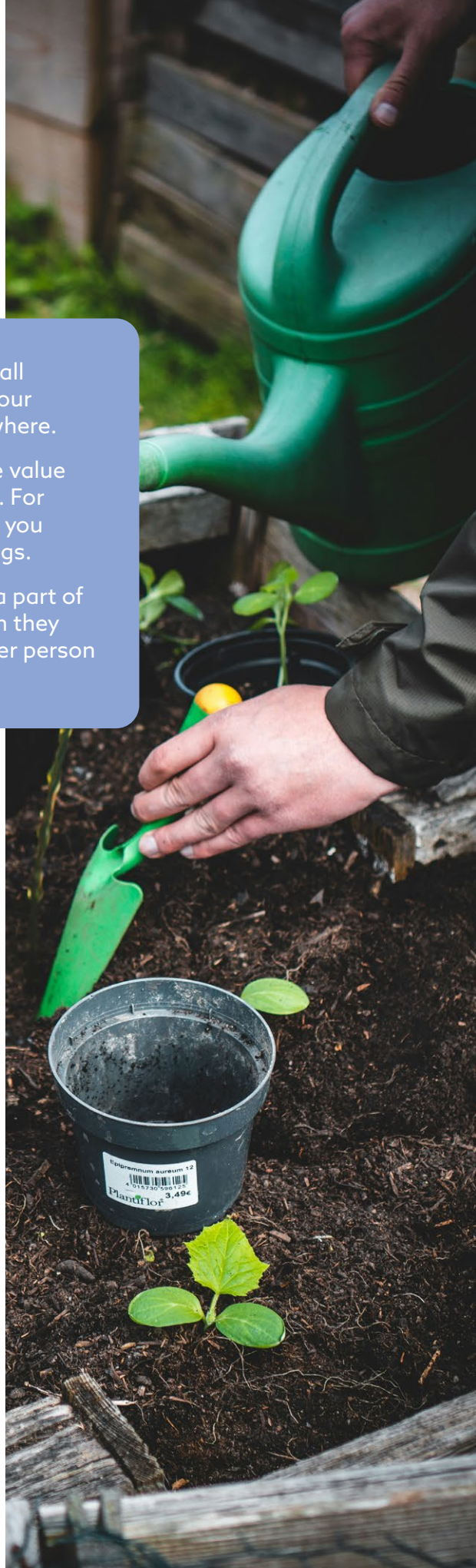
According to the UK government, women have, on average, 35% less in uncrystallised pension savings than men at the normal minimum pension age of 55. This may be, in part, due to the gender pay gap.

Additionally, women are more likely to take a career break to care for children, meaning they miss out on valuable contributing years.

Splitting pensions during a divorce could make it easier to keep your retirement savings on track. There are several ways to do this:

- **Pension Sharing Order** – This is a formal agreement to split all pension assets at the time of divorce. You are free to keep your portion in the current scheme or transfer your savings elsewhere.
- **Offsetting** – Instead of splitting pension savings equally, the value of one person's retirement pot is offset against other assets. For example, your ex-partner might keep their full pension while you keep the family home or receive a larger share of cash savings.
- **Earmarking** – While there is no legal transfer of ownership, a part of one person's pension is earmarked for their ex-partner. When they eventually come to draw benefits from the pension, the other person also receives the benefits they are entitled to at this time.

It's important to consider your own personal situation and financial goals when deciding which of these options is most appropriate for you. We can discuss splitting pensions with you and determine the most suitable way to divide your savings.



Pension sharing works differently in Scotland

If you live in Scotland, there are different rules about pension sharing. Only pension savings you built while you were together are considered. Anything saved before or after the marriage or civil partnership won't be shared. Conversely, in England and Wales, all your pension savings can be considered during a divorce.

Reevaluate your retirement plans

Once you have decided how to split your pension savings, you may want to consider how you will continue building your retirement pot after the divorce.

While you were married or in a civil partnership, you likely planned your retirement as a couple. You may have shared similar ideas about what you wanted your lives after work to look like and what your priorities would be.

Additionally, you might have been building wealth together to achieve your dream lifestyle.

Now that you're separated, you might have a very different idea of what you want from your retirement. You'll also be entirely reliant on your own savings so you may need to reevaluate your retirement plans.

Here are three important steps you might need to take.

Consider the kind of lifestyle you want in retirement

Before you revisit your pensions and other savings during or after a divorce, it could be useful to think about what you want your retirement lifestyle to look like.

You may make decisions about where you want to live, whether you'd like to travel, or how active your social life might be. These decisions won't be set in stone, but they could help you form a better idea of what your dream retirement is likely to cost.

Assess your current position and create a retirement savings goal

Once you have an idea of what your dream retirement looks like and how much it might cost, it could be useful to assess your current position.

You may want to check how much wealth you have in your:

- Pensions
- ISAs
- Cash savings accounts
- General Investment Accounts (GIAs)
- Property.

We can use cashflow planning to help you model how much wealth you're likely to have in your savings and retirement pot in later life, and how long this will allow you to fund your desired lifestyle.

Using this information, we can support you in creating a clear retirement savings goal. Depending on how much wealth you receive during the divorce settlement, and what personal savings you already have, you may find that you're not on track to meet your goal or maybe that you can retire earlier than planned.

Either way, we can consider different ways to adjust your financial plan to ensure it works for you.

Review your contributions to pensions and other savings

Now that you have a clear savings goal, and understand your current position, you may want to review your contributions to pensions and other savings.

We can determine how much you're likely to have in your pot at your chosen retirement age if you maintain your current contributions. We can then demonstrate how increasing contributions might affect the overall value of your pot, potentially making it easier to fund your dream lifestyle, or retire earlier.

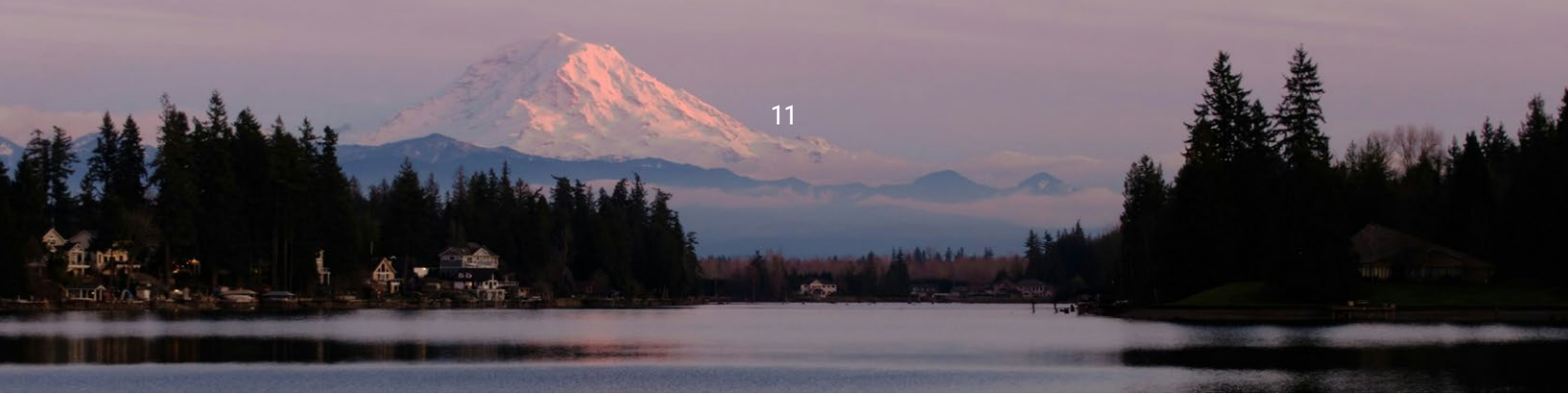
A divorce can disrupt your retirement plans, even if you split pension assets equally. Financial advice can help you to stay on track and achieve your dream lifestyle.

DID YOU KNOW?

Figures from Fidelity show the difference that increasing pension contributions could make for a 45-year-old woman earning £28,765 a year – the average UK salary for women – with plans to retire at 68.

Increasing their contribution by 1% could give them an additional £17,000 in retirement. A 3% increase could boost their retirement pot by £51,000 and a 5% rise could make them £85,200 better off.

These figures assume 3.5% annual wage growth and 5% annual investment growth.



4. Consider your protection needs

Protection forms the foundation of your financial plan and ensures you can still work towards your goals if the unexpected happens.

For instance, if you're unable to work due to illness or injury, income protection can pay a regular income until you're able to return to work. This may help you continue to meet financial obligations and potentially save for the future.

Critical illness cover, meanwhile, pays a lump sum if you're diagnosed with a qualifying illness. You could use these funds to cover additional health care costs, pay off your mortgage, or manage general living expenses.

Additionally, if you pass away, your family could benefit from a life insurance payout to help them maintain financial stability and relieve money worries at a difficult time.

Maintaining a level of protection that works for you and your circumstances can potentially reduce disruption and support your family during difficult situations.

When you get divorced, you may need to review your protection for several reasons:

- If you have a joint policy with your ex-partner, you may want to cancel it and take out a new single policy for yourself.
- If you named your ex-partner as a beneficiary, this won't automatically change on divorce so you may need to update your policy as soon as possible.
- Your protection needs could change as your circumstances are different after a divorce. For example, you may move into a different property and your outgoings might change.

We can support you with this and ensure that you and your family have the protection you need.

Different types of life insurance policy you may have

- **Single policy** – This policy only covers you and won't need to be separated from your partner when you divorce. However, you may need to update the beneficiary.
- **Joint policy** – One policy covers you and your partner. Some insurers may allow you to split the policy into two single ones. Otherwise, you may have to cancel the policy and each take out a new one.

5. Review your estate plan

Significant life events such as the birth of a new child, a death in the family, or a divorce can change your priorities. As such, you may need to revisit your estate plans during the divorce process.

Here are three important documents you might need to update.

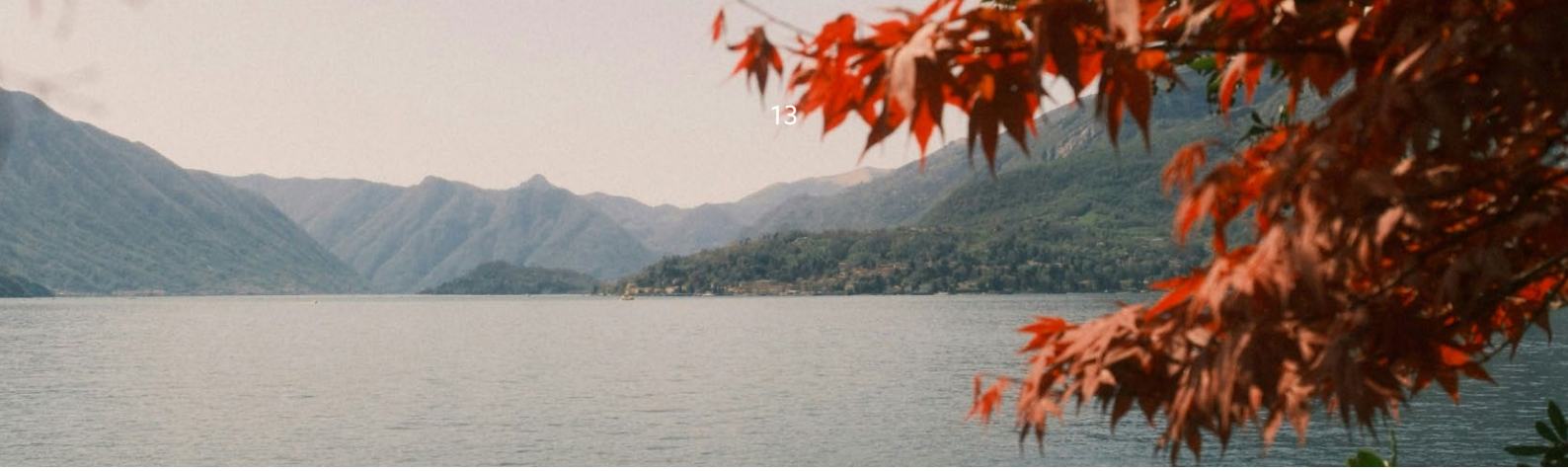
1. Your will

Updating your estate plan after a divorce is crucial if you want to avoid potential estate planning challenges in the future.

This is because, when you divorce, your current will remains in place. However, an ex-spouse can no longer benefit from your estate. Instead, if you named them in the will, their share of the inheritance normally goes to the next beneficiary, if you chose one.

This is the same process that the executor of your will would follow if your spouse or civil partner passed away before you.

As a result, if you didn't provide instructions about what should happen in the event of your spouse or civil partner's death, you could be left with no named beneficiaries. If you then passed away without updating your will, your estate could be divided according to the rules of intestacy, meaning that your wishes may not be fulfilled.



The rules of intestacy

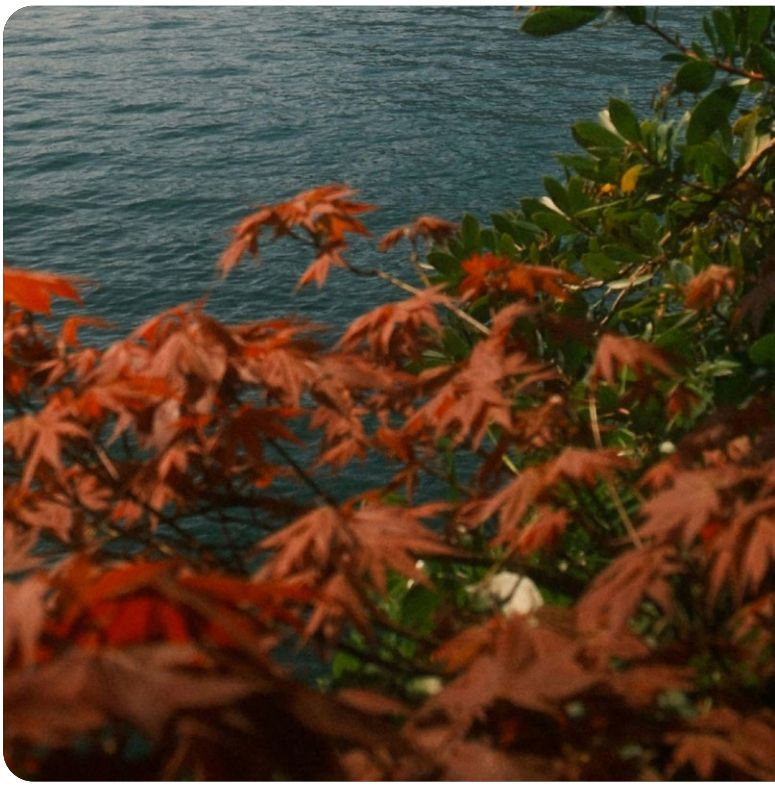
If you pass away without a valid will, your estate is divided according to guidelines known as the rules of intestacy.

If you're not married or in a civil partnership, your children or grandchildren will typically inherit your estate under these rules. If you don't have any children or grandchildren, your estate may be passed to other family members such as parents or siblings.

While this might align with your wishes, in some cases, part of your estate could be inherited by somebody you wouldn't have chosen yourself. Additionally, important loved ones could be overlooked.

For example, a long-term partner is not entitled to any part of your estate if you're not married or in a civil partnership.

That's why it's important to create a new will, so you can be sure that your estate is divided according to your wishes.



Further to this, if you later remarry, your current will is invalidated. Unless you create a new will, certain beneficiaries could be at risk of "sideways disinheritance" – a beneficiary being accidentally or intentionally excluded from their inheritance.

For instance, if you remarry and don't create another will, your new spouse or civil partner could inherit your entire estate under the rules of intestacy. Your new partner could then leave everything to their chosen beneficiaries without including any of your children from a previous relationship.

This is just one example of how failing to update your estate plan could lead to sideways disinheritance.

2. Your Lasting Power of Attorney

Your Lasting Power of Attorney (LPA) is an important document that nominates attorneys to make decisions about your health, welfare, and finances if you are considered mentally incapable. This doesn't update automatically on divorce.

Consequently, if you experience an injury or illness that affects your mental capacity, your ex-spouse may have the power to make crucial decisions on your behalf. Most importantly, your family may not be able to influence these decisions.

The two types of LPA

1. **Health and welfare** – Nominates one or more attorneys to make decisions about medical care and overall wellbeing, including your living situation.
2. **Property and financial affairs** – Nominates one or more attorneys to make decisions about your property and finances. Your attorneys will have access to your bank accounts, investments, and pensions.

3. Your "nomination of wish" form

Your pensions are not covered by your will and will not automatically pass to loved ones with the rest of your estate. Instead, you must complete a "nomination of wish" form to choose a beneficiary, and so you're likely to need to change this when you get divorced.

Bear in mind that your nomination of wish is not legally binding, and your pension trustee doesn't have to adhere to it.

That said, most providers will try to follow your wishes, where possible.

Consequently, if you named your ex-partner as a beneficiary, they could still inherit your pension when you pass away unless you update your nomination of wish form after a divorce.

Updating these crucial documents during the divorce process ensures that your wishes are fulfilled when you're gone and could prevent complicated legal issues for your family during a difficult time.

Consider your Inheritance Tax planning strategy

When deciding how to pass your estate to your loved ones, it's important to consider the Inheritance Tax (IHT) they might pay.

You may need to review your IHT planning strategy after a divorce because it could be more difficult to mitigate a large bill.

This is because, in 2024/25, you can pass up to £325,000 to your beneficiaries without IHT. This is known as your "nil-rate band". You may also benefit from an additional £175,000 "residence nil-rate band" when passing your main home to a direct descendant such as a child or grandchild.

Crucially, you can pass your entire estate to a spouse or civil partner without IHT and they inherit your unused nil-rate bands. As such, prior to the divorce, you could have passed on up to £1 million between you.

Yet, after the divorce, you will only be able to utilise an individual person's nil-rate bands, meaning more of your estate could be liable for IHT.

Additionally, in her recent Budget, chancellor Rachel Reeves announced that pensions would no longer be exempt from IHT after April 2027. As such, it could be more challenging to mitigate IHT in the future.

Consequently, you may need to explore alternative ways to reduce the IHT liability of your estate, such as by using gifts or trusts. We can support you with this.

We can support you with these unique financial challenges during a divorce

A divorce can have a significant effect on your finances now and in the future. Fortunately, with our support, you can maintain financial stability and continue working towards your long-term goals.

Please contact us:

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Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

Please do not act based on anything you might read in this article. All contents are based on our understanding of HMRC legislation, which is subject to change.

The Financial Conduct Authority does not regulate estate planning, cashflow planning, tax planning, trusts, Lasting Powers of Attorney, or will writing.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates, and tax legislation may change in subsequent Finance Acts.

The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

Note that life insurance plans typically have no cash in value at any time and cover will cease at the end of the term. If premiums stop, then cover will lapse.

Cover is subject to terms and conditions and may have exclusions. Definitions of illnesses vary from product provider and will be explained within the policy documentation.

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