Graham Hancock
Tradpin Construction
14 Hemnall St
Epping
CM16 4LW

27 July 2015

Dear Graham,

## Pension Rights in connection with a pension-sharing order

I am writing to you in connection with the requirement to provide a pension transfer value for DP Hancock.

It is important as Trustees,you are aware of the legal responsibilities imposed on you where there is an enquiry and subsequent order for a pension sharing.

In December 2000, legislation came into effect that allowed pension sharing on divorce. There is no obligation on the courts to insist on pension sharing. It is simply one of several options available, along with earmarking and the traditional method of offsetting pension rights against other matrimonial assets.

The advantage of pension sharing is that it allows the member's benefits to be divided at the time of the divorce rather than waiting for the benefits to come into payment. A pension-sharing order provides the parties with a "clean break" solution to sharing pension benefits, which will often be a valuable part of the divorce settlement.

A pension-sharing order will specify that the member's benefits are reduced by a pension debitand the former spouse is given a pension creditof equal value. This credit can then be used to provide benefits for the former spouse from the scheme itself, or it can be transferred to another scheme.

## Pension debits

### Calculating the pension debit

A pension-sharing order must specify what **percentage** of the value of the member's rights is to be transferred to the former spouse rather than specifying a fixed amount. This percentage must then be applied to the cash equivalent of the member's benefits, This produces a monetary amount which is the pension debit.

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### Giving effect to the pension debit

If a member's pension rights are subject to a pension debit, each benefit must be reduced by the percentage value specified in the pension-sharing order. In your scheme, it is relatively straightforward to give effect to a member's pension debit. The pension debit will normally take the form of a once-and-for-all reduction in the member's account at the time when the order is implemented.

### External transfers

Although trustees can agree to an internal transfer to the former spouse, they are not compelled to do so. If they wish, trustees can instead transfer the pension credit rights outside the scheme even without the consent or co-operation of the former spouse.

The recipient can be another occupational scheme, a personal pension scheme, an annuity contract or insurance policy, or an overseas arrangement. If the former spouse does not nominate a scheme or arrangement to receive the pension credit, the trustees will be able to select one themselves.

### Internal transfers

The former spouse who accepts an internal transfer will, to all intents and purposes, become a member of the scheme and will have rights very similar to those of a deferred member.

Where an internal transfer takes place, the benefits arising from the pension credit are known as "pension credit benefits" and a mechanism is needed for converting the monetary amount of the pension credit into the pension credit benefits. Although the pension-sharing legislation does not prescribe the particular form that pension-credit benefits must take, it does set out several requirements that schemes must meet in relation to such benefits.

The additional administration involved in providing pension-credit benefits has resulted in most schemes preferring to offer only external transfers. Trustees may, however, make an exception where the former spouse is already a member of the scheme in their own right.

### Basic and additional information

Initially, trustees are required to provide certain basic information about the member's rights, that information is contained in the attached letter. When the trustees have been notified that a pension-sharing order can be made, they must then provide certain additional information to the member, his former spouse or the court.

### Further information

Before the four-month implementation period begins, the trustees of the affected scheme are entitled to copies of the pension-sharing order, the divorce order and certain other specified information, so as to assist them in putting the pension-sharing order into effect.

### Notifications by the trustees after receiving a pension-sharing order

Within 21 days of receiving the pension-sharing order, the trustees are required to provide the member and the former spouse with one of the following:

* A notice of implementation specifying the date on which the four-month implementation period begins.
* A notice requesting additional information, if they have not received everything they require.
* A statement explaining why they are unable to implement the pension-sharing order.

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### Notifications by the trustees after implementing a pension-sharing order

Once the trustees have implemented a pension-sharing order, they must issue a notice of discharge of liability to both the member and the former spouse. This notice must be issued within 21 days of the discharge of liability in respect of the former spouse's pension credit being completed.

The exact content of these notices of discharge will depend on whether the recipient is the member or the former spouse, but certain information must be included.

## Bearing the cost of pension sharing

As a result of the obligations imposed by the pension sharing legislation, trustees will inevitably incur costs and expenses, which will not result in any benefit for the scheme members generally. The legislation sets out the extent to which these costs and expenses may be recovered from the divorcing member or the former spouse and the manner in which it should be done. For example: Trustees may only recover, by way of charges, "reasonable administrative expenses".

The trustees may not recover certain costs which are not associated with implementing the specific pension-sharing order.

I trust that this clarifies your responsibilities in this area. As part of our administration service, we undertake most of this work for you but the initial liability vests with you and hence it is important to draw these issues to your attention.

Yours sincerely

Tony McCarthy

**For Pension Practitioner .Com**

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Dear Graham,

## Pension Rights in connection with a pension-sharing order for DP Hancock

Tradpin Construction Limited Retirement and Death Benefit Scheme is a pension scheme which is governed by definitive trust deed and rules dated 23 May 2006 and all supplemental deeds. The scheme operates on a money purchase basis.

A money purchase is one where the employer and usually also the member pay contributions that are credited to the member's notional "individual account" (often referred to as the member's "pot").

The value of the account depends on the contributions paid by the member (if any), the contributions paid by the employer in respect of him or her and the investment growth attributable to those contributions. When the member retires, the value of the account is typically used to buy an annuity to provide him or her with an income.

In a money purchase scheme, the amount of pension the member receives will be wholly dependent on the contributions made, the investment growth achieved and the annuity rate obtained; it is not in any way related to the member's earnings before retirement. In a money purchase scheme, it is the member that takes the investment risk. If the investments perform poorly, it will impact on the employee's level of income in retirement rather than on the cost to the employer of providing the benefits.

This is a trust-based scheme, therefore a trustee board operates, the trustees of whom are contained in the governing deed and are cited as David Hancock, Graham Hancock and Annette Hancock. The trustees are responsible for administering the scheme; but they have delegated the day to day administration functions to Pension Practitioner .Com Limited.

In the case of , the value of the members account is referenced in the scheme accounts on an annualised basis. The most recent accounts for the pension scheme amounts to

The Trustees are required to obtain accounts for each financial year which give a true and fair view of the financial transactions of the scheme during the scheme year, the amount and disposition of the assets at the end of the scheme year and the liabilities of the scheme, other than the liabilities to pay pensions and benefits after the end of the scheme year. Such accounts must also contain the information specified in the Regulations. The financial statements have been prepared and audited in accordance with Sections 41(1) and 41(6) of the Pensions Act 1995.

The most recent statements being as at 26 December 2013 show that the value of DP Hancock's share of fund amounts to £81832; given that the fund is not a unitised fund this would also represent the current equivalent transfer value as of that prevailing date. No further contributions were paid into the scheme for this member since that date, but an adjustment of accrued interest would be awarded reflecting net investment growth for the intervening period.

Yours sincerely

Gavin McCloskey

**For Pension Practitioner .Com**