Example Divorce Scenario: Sally and Simon Smith

Details for Sally and Simon pre divorce settlement

Personal details

Sally Smith, DOB 16.10.72, aged 42 next birthday in 2014.
Simon Smith, DOB 01.06.68, aged 46 next birthday in 2014.
2 children- twins Susan & Stuart Smith, DOB 09.08.08, aged 6 next birthday in 2014.

Sally does not work outside the house.

Assets

Matrimonial home, worth £850,000-jointly owned, no mortgage
Buy to let property, worth £340,000-jointly owned, no mortgage

Simon Smith pensions and ISAs

Money purchase pension 1, value £300,000
Money purchase pension 2, value £300,000
ISAs total £50,000

Sally Smith pension and ISAs

Money purchase pension 1, value £100,000
ISAs total £40K

She is moderate risk.

Total assets

	Sally	Simon	Joint	Total
Matrimonial home			£850K	£850K
Buy to let			£340K	£340K
Pensions	£100K	£600K		£700K
ISA	£40K	£50K		£90K
Total				**£1,980K**

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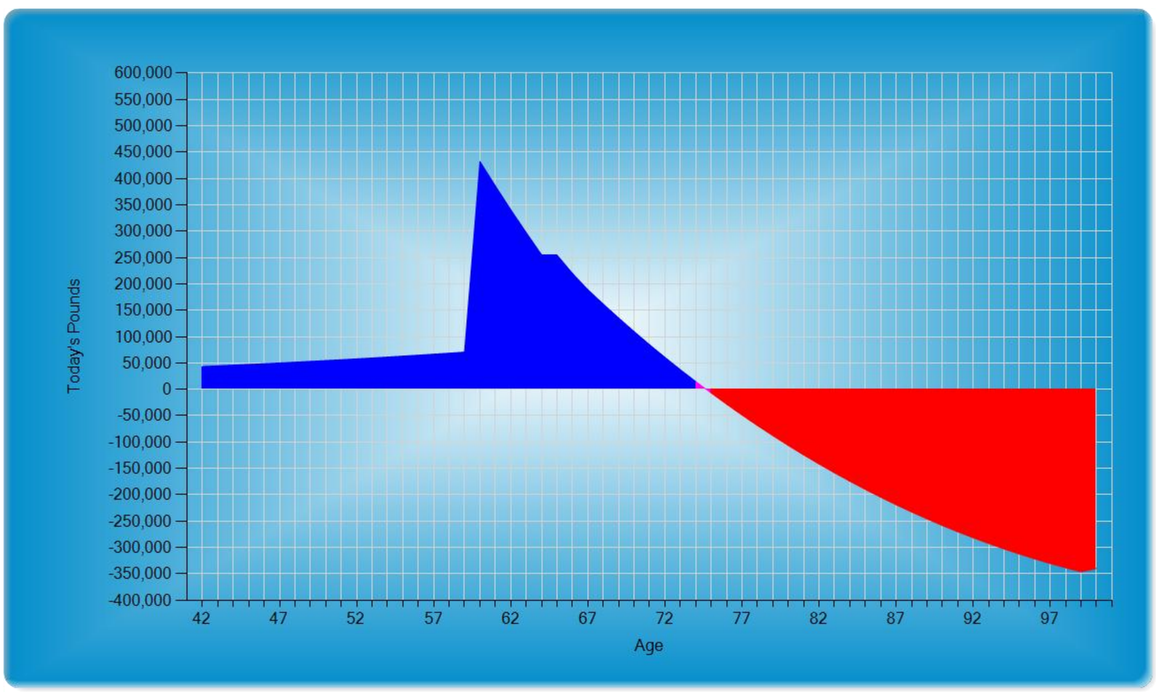
Suggested financial settlement scenario 1
Split assets 50:50 with Sally awarded the house

Split of assets:

	Sally	Simon	Total
Matrimonial home	£850K		£850K
Buy to let		£340K	£340K
Pensions	£100K	£600K	£700K
ISA	£40K	£50K	£90K
Total	**£990K**	**£990K**	**£1,980K**

The cashflow below shows how Sally's cash position changes over time. Blue represents cash coming in and red represents cash being spent.

The graph shows that Sally runs out of money at **age 73**.



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The calculations have been based on the **following assumptions**:

Simon will pay child maintenance until the children are aged 25, so all children's costs have been ignored.

Sally's spending is £40,000 pa in today's terms. The terms of the settlement are that Simon will pay maintenance of £40,000 index linked until he's 65. Sally will be 60 at this stage, and the children will be 25. It has been assumed the children will leave home at 25.

When Sally is 60 and the children have left home, she will downsize & releases 48% equity. This is the equivalent of a house value of £440K in today's value.
Her household expenses will then drop, following the downsize to £37,000 pa in today's money.

At age 60 spousal maintenance will cease. Sally will then draw on her pensions and ISA to cover the income shortfall. She takes 25% of her pension as tax free cash and draws the balance as an annuity each year. She does not add to her pensions or ISA after the divorce.

Suggested financial settlement scenario 2
Split assets 50:50 but Sally downsizes at the time of divorce
and receives some pension share

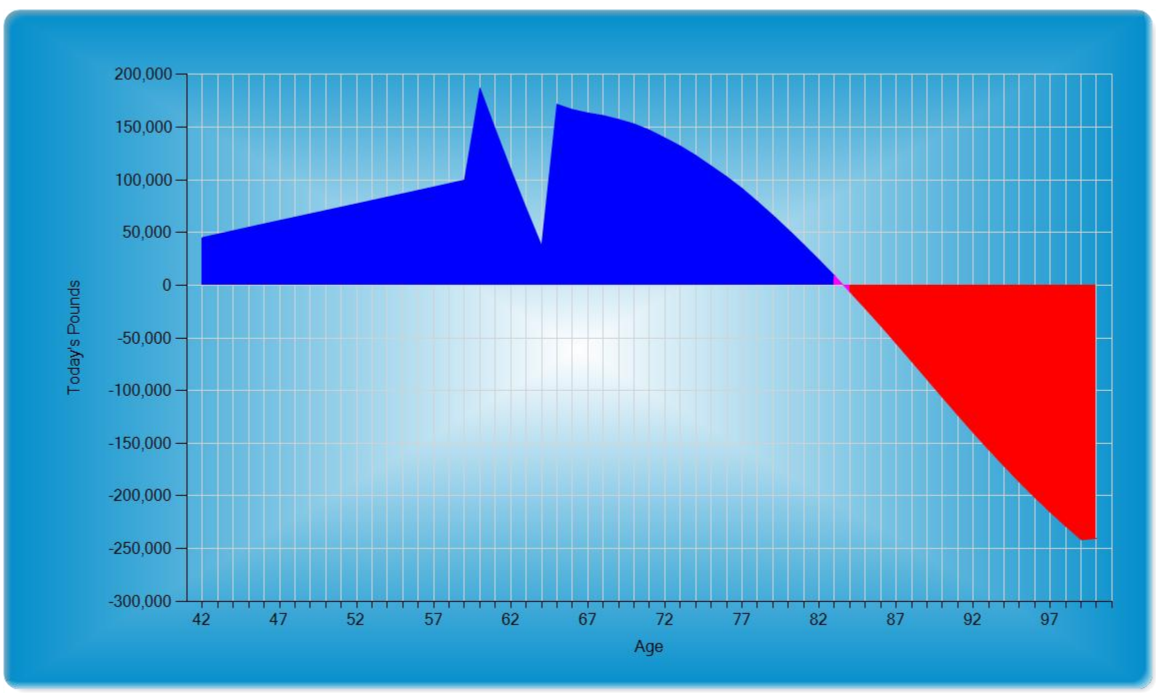
Split of assets:

	Sally	Simon	Total
Matrimonial home	£550K		£550K
Buy to let		£340K	£340K
Pensions	£100K	£600K	£700K
Pension share	£300K	-£300K	
Cash		£300K	£300K
ISA	£40K	£50K	£90K
Total	**£990K**	**£990K**	**£1,980K**

The cashflow below shows how Sally's cash position changes over time. As before, blue represents cash coming in and red represents cash being spent.

The graph shows that Sally runs out of money at **age 83**.

This is 10 years later than scenario 1 even though her share of assets is no different in this scenario. It is the mix of the assets making up her financial settlement that has led to this difference.



As mentioned before if this was a real scenario additional financial planning would be required to make adjustments to the plan to ensure her funds would last longer.

The calculations have been based on the **following assumptions**:

As before, Simon pays child maintenance until the children are 25. As before, he will pay £40,000 linked to RPI until he is 65, at which point Sally is 60.

However, as a result of downsizing her spending is now £38,000 pa rather than £40,000. Sally invests the additional £2K a month in Pensions/Isa.

As before the children leave home at 25.

At this stage Sally downsizes and releases 20% equity. This is the equivalent of a house value of £440K in today's terms. (This is the same value of property assumed in scenario 1 at age 60).

Following the downsize her expenses reduce to £37K in today's money. As in scenario 1 at age 60 she starts to draw on her pension and Isa investments. She takes 25% of her pension as tax free cash and draws the balance as an annuity each year.

Summary

Other than the split of the assets at divorce, all other assumptions are the same between the 2 scenarios. The case study shows that staying in the former matrimonial home rather than downsizing may not be an appropriate financial decision.