DIVORCE FINANCIAL ADVISING UPDATE

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VALUING AND DIVIDING DEFINED BENEFIT PENSION PLANS IN DIVORCE

Defined benefit pension plans pay the plan participant or alternate payee a monthly benefit at a certain age and length of service. Such plans can be divided either by a division of the monthly benefit or by present valuing the benefit stream and trading it off for another asset. Very often, if both parties have pension plans and it is proposed that each keeps his/her own. In that case, they should be present valued to make sure they are relatively equal.

The **initial monthly benefit** that will be paid to a pensioner is based on a formula determined by all or some of the following factors:

- Eligible compensation
- Length of service or points accrued
- Age (life expectancy)
- Type of annuity – single life or survivor benefits

For benefits after the initial year, many pension plans offer a COLA (Cost of Living Adjustment).

The present value calculation is comprised of the following components: age pension begins, initial monthly benefit, COLA, life expectancy and discount rate. For clients who are at or near retirement, the assumptions are not too difficult. For younger clients, it's much trickier. For younger employees, assumptions regarding their longevity with the company and final compensation level leave much room for argument. Performing several projections under varying career path assumptions can serve as negotiating tools.

A word of caution. Some government employees do not contribute to Social Security. In their case, if married for at least 10 years, they would be eligible for 50% of their ex-spouse's social security benefits. However, the Government Pension Offset Provision may substantially decrease the amount they would receive or even eliminate it altogether.

Have questions? Need help? Give me a call or e-mail me.

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