Actuary or IFA – what's the difference and who should I use?

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When it comes to pension sharing, actuaries and IFAs can offer different skills and it is important to assess early on what advice and information is required

Since pension sharing legislation first allowed the physical division of pension assets in December 2000, many in the legal profession have gravitated towards the actuarial profession for assistance with pension sharing reports. In the early years, cash equivalents (CEs) were much lower than today when compared to providing similar benefits on the open market, and it was often helpful for an actuary to check and confirm whether or not the CE was realistic. In addition, money purchase arrangements offered fewer retirement options than are available today, so the requirement for financial advice from an IFA was limited.

Due to the changes in pension legislation around flexibilities and funding limits, pensions have become more complex, and the need for financial advice both before and after divorce has increased. A number of IFAs are now qualified and capable of producing pension sharing reports. Some are also able to provide financial advice on matrimonial matters and assist with the implementation of agreed pension shares.

So the dilemma is often who to use. This article considers the differences between actuaries and IFAs and aims to determine who to use and when. Each coming from a different side of the divide, the key point that we agree on is that to get a good pension sharing report produced you need to find an expert in this field.

It is probably fair to say that a "standard" pension sharing report produced by an actuary or an IFA competent in this field will look similar, but identifying where there are non-standard requirements and where to get help can be the tricky bit. It is essential to check that the expert has the experience, knowledge and attention to detail necessary to produce an accurate report

A good actuary is likely to be more familiar with the deeper nuances of some pension schemes, especially those in the public sector or where there are particular member-specific benefits or transfers in from other schemes. On the other hand, the IFA will be able to produce a pension sharing report with due consideration to the legislative and financial planning aspects that may be relevant to the case. They will also be able to assist with the implementation of an agreed pension share and other financial needs of individuals post-divorce. An experienced IFA or actuary will know when to get additional assistance or refer you to someone who can help.

The best of both worlds

Having a good relationship with both an actuary and an IFA who specialise in this area might be considered the best of both worlds. Even better would be an actuary and an

IFA who have a working relationship with each other. Case discussions may often highlight the best direction for you to pursue. Most good actuaries or IFAs are happy to have these pre-instruction discussions with you and are not shy of referring you on if they feel that your instruction is better dealt with elsewhere.

The actuary's perspective

The majority of actuaries will pay great attention to detail in their specified field. The training means that most will be painstakingly thorough by nature.

It is vital that the actuary has the necessary experience. Many actuaries will have extensive knowledge of their own area of work but have only theoretical knowledge acquired some years previously of the majority of other actuarial disciplines. This is very important in the field of pensions on divorce where an almost encyclopaedic knowledge of pension schemes, scheme features, and revaluation methods is needed.

As time passes, there are fewer and fewer cases that actually need an actuary. For many the reason for choosing an actuary is not the actuarial expertise but the thorough approach instilled in, and developed by, the actuary in their career. Sometimes, the reason for instructing an actuary may simply be because both parties already have their own financial advisers and therefore the actuary is seen as completely independent.

The actuary's view of IFAs

Many cases will require an IFA to be involved at some stage because one or both parties will need advice about their situation pre- and/or post-divorce as they will be going through a significant change in their financial circumstances.

If the IFA is going to do the pension sharing report, it is vital they have the necessary experience. Some may be very good at advising on how to deal with the funds and planning the future post-divorce, but for a report, you need to check that they also have the necessary experience of pension schemes, pension sharing and the relevant laws on divorce. The best IFA practitioners who are experienced in this area all do this, but there still remain a few who try to do cases and are unaware of the minefield they are getting into. Experience is likely to be the key, but a personal recommendation is often the most important. Whether you use an IFA or an actuary, you need to be confident that they will refer you to someone else where knowledge and experience outside their niche is necessary. If the IFA that a party likes does not have the required knowledge, they may prefer to work alongside an actuary to produce the figures rather than refer the matter to a competitor.

The IFA's perspective

An IFA will be regulated to give financial advice to individuals. This (along with their financial planning work) will also require problem solving and strategic thinking skills. Some IFAs will specialise in pensions work and will be necessarily numerate, as well as holding the recognised specialist pension qualifications (G60 or AF3). Like the actuary, being competent in the production of pension sharing reports will also require the IFA to have a good understanding of the divorce market, including relevant legislation and practical experience of how pensions are shared on divorce.

So if you are looking for an IFA to produce a pension sharing report, make sure they are expert in the pensions and divorce field. IFAs with good knowledge of pensions on divorce are quite rare.

Many pension sharing cases would benefit from the view of an IFA, especially in complex cases where allowances might be breached and financial advice could improve the outcomes. For example, more and more individuals are reaching the lifetime allowance limit where pension funds over £1m are taxed.

Pension sharing can have a big impact and ramifications need to be thought through, creative solutions sought and advice given where appropriate. In some cases, action taken before agreeing on the pension share can be beneficial to both parties, and again this is where financial advice can be invaluable.

As mentioned above, it is crucial to find an IFA you know to be an expert in the pensions and divorce field, who gives you the service and quality of output that you require. Some IFAs will have been through accreditation with Resolution and thus through examination and continual assessment will have demonstrated their experience and knowledge of this increasing complex area.

The IFA's view of actuaries

By training, actuaries are problem solvers and strategic thinkers with a deep understanding of financial systems. This necessitates being highly numerate, which pension sharing calculations require. It also necessitates a deep understanding of the particular field in which they operate. An actuary who calculates healthcare risk and rates wouldn't have much of an idea about the world of pensions and how to share them on divorce – and vice versa of course. So if you need an actuary to produce a pension sharing report make sure they are an expert in the field.

Actuaries aren't able to give specific financial advice, so if you are sure that all you want is the production of pension sharing figures with no other input in terms of financial advice, then an actuary will be ideal.

Finally, as David mentioned above, many actuaries in this field have a particularly good understanding of the complexities of public sector schemes, eg teachers, civil service and uniformed services pensions.

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