How To Succeed Financially During And After A Divorce

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Few people enter a marriage expecting it to end in divorce, but unfortunately, many marriages do. While no one wants to plan for a divorce, sound financial planning can help ease or protect against the financial effects of a divorce, should one come to pass. Below are 9 steps you can take that will serve you well as you embark on the divorce process.

1. Carefully select the type of lawyer you hire. "There are two main paths to choose at the outset: settlement or litigation," according to Darcy Shoop, a settlement lawyer in Maryland. And within settlement, your three choices are mediation, collaborative law, or standard negotiations. "If you select a settlement path, it is important that you find a lawyer skilled in the art of settlement," says Shoop. "And remember that getting to "yes" is voluntary, so you want to avoid unnecessary conflict and costs. Conflict is expensive" she explains.

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2. Take an inventory of your assets and liabilities. Know what you own and don't be in the dark about your balance sheet. Gather copies of documents that verify assets, liabilities, income, and expenses; bank, brokerage, and retirement statements; as well as real estate documents. If you thoroughly understand your overall financial situation, you are in a better position to negotiate a fair settlement.

3. Consider the tax ramifications of any asset split. All dollars are not equal. Some may include a high proportion of taxable (capital) gains, others will be hit with ordinary income taxes, and some will simply be a tax-free return of principal. Therefore, it's a smart strategy to calculate the embedded capital gains or the future taxation of assets you may be receiving.

4. Check your credit. Surprises may lurk in your credit report that can inhibit your ability to get the loan you may be looking for as you start your new life. Pull at least one credit report on yourself and check for debt or even liens that you did not know about. Unfortunately, you may be held responsible for debts incurred while you were married, even if your spouse benefitted from the loan. So find out as soon as possible if either you or your spouse has created an issue.

5. Update your beneficiaries. After any major life-changing event, it makes sense to review the beneficiaries and contingent beneficiaries on your retirement plans, insurance policies, and other "beneficiary directed accounts" to make sure they are as you intend. Also be sure to review all your estate documents (e.g., Living Trusts, Guardianships, and Powers of Attorney) to reflect your new situation.

6. Protect your child support or alimony payments. To the extent possible, try to insure the continuation of child support or alimony payments in the event your ex-spouse dies or becomes disabled. This may require your being named the beneficiary of an existing policy, at least for the duration of the child support or alimony. If no coverage exists, you may need to request that your spouse get new coverage. Be aware this may be easier said than done; it is not unheard of for an angry spouse to deliberately fail a medical exam in order to sabotage the underwriting process and have the insurer decline the application.

7. Adjust your lifestyle to match your new income. After a divorce, there is usually a decline in household income or at least a split of the investable assets. For many recent divorcees, adjusting to a lower cash flow is the most difficult part of their new financial life. Burdened with the emotional struggle of divorce, many are anxious to get out and enjoy life, which of course, costs money. From an emotional perspective, this is totally understandable. But eventually, if the therapeutic spending continues at an unsustainable pace, a new set of challenges and problems can develop. It is imperative to know your cash flow, live within your means, resume your long-term retirement savings, and manage any credit card debt that starts to accumulate.

8. Learn how to handle all routine transactions. Perhaps not surprisingly, I meet a lot of recently divorced people who don't know how to pay all the bills for which they are now responsible. This can be significant, as a few late payments—even for one credit card or one utility bill—can reduce your credit rating. So, make sure you know how to manage all the aspects of the day-to-day running of your home and what monthly bills you need to pay.

9. Don't forget to fund retirement. As your new life settles into place, start planning again for your retirement years. If you still need to build an investment portfolio to fund your retirement, there is no time like the present to get started. Understand how much money you will need to accumulate in order to stop working at your desired retirement date; then calculate how much you need to save each month or year in order to achieve that goal. If this calculation is a little too

complicated for you, look for a Certified Financial Planner or other professional who can help.

In my new book, Countdown To Financial Freedom, I list Divorce as one of the 3 D's that, along with Disability and Death of a partner, can devastate your financial plan. Implementing these strategies can help mitigate at least some of the financial pain of a divorce. And while these are important steps to take on your way to a new financial life, remember that money is only a part of the overall equation. A commitment to starting anew with a positive mental attitude and a healthy lifestyle will complement your commitment to financial freedom. And, if you are still in a committed relationship but considering a split, these strategies are part of sound financial planning, even if divorce never comes to pass.

7 Financial Tips To Avoid January's High Divorce Rate

With Valentine's Day a few weeks away, it might seem coldhearted to be writing about divorce, but there are reportedly more divorce filings in January than in any other month. While repairing the cracks in cupid's love bubble may not always be possible, couples can take some steps to reduce arguments, at least around money. Here are seven financial tips for people in a committed relationship who are trying to remain in a state of marital bliss:

1. <u>Understand each other's history</u>. We all have a life history and childhood experiences around money which can differ greatly between spouses. For example, if one spouse was frequently given lavish gifts as a child, then spending a lot on gifts may come naturally to him or her. However, this may cause a lot of anxiety for the other spouse who grew up working for minimum wage. Without an understanding of the values you each place around money and spending, disagreements may soon follow. Little differences like this can polarize conversations around money, so try to understand each other's monetary drivers and experiences.


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2. Hire a referee. If talking with each other doesn't always go as planned, get a referee–or in this case, a financial advisor. He or she can deliver a written document outlining your goals, monthly cash flow, and saving requirements. This way, each partner can see for themselves why a certain action may or may not be a part of the mutually agreed plan.

3. Set mutual goals. Having conversations about your family's financial situation and overall plans for the future is a great step. From there, set mutually agreeable, specific goals and take pride and enjoyment in tracking your progress. If you can see and share results with each other, it can be a more positive experience.

4. Develop a monthly cash flow worksheet. As a couple, determine how much income you need to live on (the amount you need to spend) and how much you can save after monthly bills are paid. The remainder is your discretionary income, which is the amount you can either spend on luxuries or save for your longer-term goals. Also, prioritize which bills are essential and look for places to reduce unnecessary spending. In addition, learn as much as you can about your mortgage, taxes, and insurance and look for refinance opportunities and other cost saving measures. When both spouses share the same understanding of their family finances and financial vision, it can help build shared values and avoid misunderstandings.

5. Know where your money is invested. If your assets are titled jointly (it is usually smart for marital assets to be held with joint ownership), you can ask for statements to be mailed to you or to have access to your online account statements. Don't delegate to your spouse full responsibility for understanding your assets and making investment decisions; instead be interested and involved, at least enough to avoid unwelcomed surprises. I have seen people in a state of shock after learning their spouse was investing in a fancy wine collection or in a local restaurant that subsequently failed.

6. Have the courage to discuss insurance. Just because you and your spouse are not discussing a financial concerns doesn't mean they aren't lurking just below the surface; and these concerns can cause relationship stress. I see this most often with the topic of death and disability. Especially when there is an income disparity, the lower-earning spouse is often worried about how they will support themselves should their spouse die or become disabled; yet, because it's a difficult topic, they avoid bringing it up. To be sure, it can be a discussion full of emotion, but it is a discussion that needs to be had. If you're the higher-earning spouse, remember it shows a great amount of care and thoughtfulness on your part if you take the initiative to discuss this topic with your spouse.

7. Consider a "postnup." A postnuptial agreement is a contract you make with your spouse after the start of your marriage. According to Stuart Skok, a Maryland-based divorce attorney, in a postnuptial, you negotiate what would happen in the event of divorce or death." As such, it can also serve as part of an estate plan. Another benefit of a "postnup" is that the couple works through financial issues, potentially alleviating problems that could otherwise lead to arguments and eventual divorce. The postnup process may even help to begin repairing rips that have started in the relationship around finances. A postnup is a strategy often suggested by Skok, who counsels that "the grass is not always greener on the single side."

A lot goes into managing a household budget and investment portfolio, and it can be confusing. Talk with your partner about all of this and get on the same page. That way, you may protect yourself from at least one of the reasons why January is such a popular month for divorce filings.