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How To Succeed Financially During And After A Divorce

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I help people on their path to Financial Freedom. **FULL BIO**

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.

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.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.