

LIFE SPANS

THE BRIDGE DIVORCE STRATEGIES NEWSLETTER

INTERESTING INFO YOU CAN READ OVER A SINGLE CUP OF COFFEE!

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JANE DOE STORY OF THE MONTH

At about 38 years old, Jane's soon-to-be-ex was ten years older than she was. As a prestigious medical professional, he also earned a lot. So, during the course of their marriage, things simply "got paid."

Which leads to the Affidavit of Financial Information, or AFI. As you know, it's a form from the court, which must be filed as part of the divorce process. It gives the judge a quick, clear picture of income, expenses, and kids, so he or she can rule on child support, division of assets, and property.

Jane and her husband had been spending about \$40K a month prior to the split. But where did this all go? Jane never kept track; she didn't need to. But now, she had to itemize things like food and utilities, and she was stuck.

Jane's attorney requested our assistance with. And we were happy to help; this type of service is our bread-and-butter. We performed a historical lifestyle analysis, tracking the couple's spending over the previous 12 months. We scrutinized bank and credit-card statements, and plugged the data into our software to develop projected spending and help Jane's attorney build the case for a specific spousal maintenance amount.

Mind you, this gets tricky. And it typically goes through numerous revisions. That's because the AFI poses truly difficult questions for someone like Jane: "What will your expenses be in the future when you're divorced?" Would she buy a house? Rent? There were tons of unknowns to consider. And even things that might seem small—such as the info on a paycheck stub—can have big implications. If Jane gets paid bimonthly, vs. biweekly, that translates to 24 pay periods each year vs. 26, so the annualization—and withholding amounts—are typically incorrect.

Which begs the question: What family-law attorney, in their right mind, would ever want to touch any of this?

As we'd noted above, Jane's lawyer was delighted to delegate this to us. She reasoned, correctly, that we could do it for less than she could, and we'd do a better job. As she put it: "If an attorney wants to do that work, they're not billing enough."

FINANCIAL TIP OF THE MONTH

Jane's husband has a large 401(k) account with a balance of \$1.9 million. He works for a privately-held company and also owns company stock worth \$900K which he is prohibited from selling until he reaches age 62. His current age is 56. Jane is 54.

In their negotiations, it is clear that Jane will need to receive a large portion of the 401(k) account as an offset to her husband's company stock. Jane's marginal tax rate is 22% and her husband's is 35%. That being the case, what is the after-tax value of each account and how much penalty will Jane have to pay if she takes a distribution of \$200,000 from the 401(k) to put a down payment on a new house?

Answer: The real answer is that there isn't enough information to be specific about the taxes, but assuming the \$900K company stock is taxed at the long-term capital gain rate for high income-earners of 20%, it would be worth \$720,000. The 401(k) would—in reality—be taxed at a blended rate depending on how much she withdrew in a year—but using the marginal rate of 22%, the after-tax value is \$1,482,000. Finally, she would pay ZERO in penalties. Want to know why?

THERE REALLY IS A FREE LUNCH

We would like to bring a nice, tasty lunch to your office! It gets better: We'd like to teach you things about the financial side of divorce that fly under your radar—and help you earn up to three hours of CLE credit in the process!

Simply give us a call at (480) 378-2383 (or send an email to carma.hall@bridgedivorcestrategies.com) and say, "Hey! We'd love to take you up on that lunch-and-learn opportunity!" There's no obligation. Call us today!

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